

**Because  
talent  
is the  
ultimate  
differentiator  
in business.**



**KORN FERRY**

**ANNUAL REPORT**  
FISCAL 2014



Korn Ferry is redefining the business of talent for clients and is recognized today as the single source of expertise on talent and leadership.

**49 thousand** professionals benefit from our development programs every month\*

Every **seven minutes** we place a professional in a new job\*

**2.5 million** professionals assessed

**94 percent** of the Fortune 100 have chosen to partner with us in the past three years (as have 84 percent of the FTSE 100)\*\*

\*Based on a 2,000-hour work year

\*\*Based on client engagements opened between April 1, 2011 and March 25, 2014. Including pre-acquisition data from PDI Ninth House and Global Novations

We **design** talent strategies that accelerate business outcomes.

We **build** and develop talent from within and **attract** new talent from the outside.

## OUR SOLUTIONS

### DESIGN

TALENT STRATEGY AND ORGANIZATIONAL ALIGNMENT

### BUILD

SUCCESSION MANAGEMENT

BOARD AND CEO SERVICES

LEADERSHIP DEVELOPMENT

WORKFORCE PERFORMANCE, INCLUSION AND DIVERSITY

### ATTRACT

EXECUTIVE RECRUITMENT

PROFESSIONAL RECRUITMENT

RECRUITMENT PROCESS OUTSOURCING

ONBOARDING

EMPLOYER BRANDS AND TALENT COMMUNICATIONS

# In figures.

Total fee revenue in millions  
fiscal year

\$960.3

2014

\$812.8

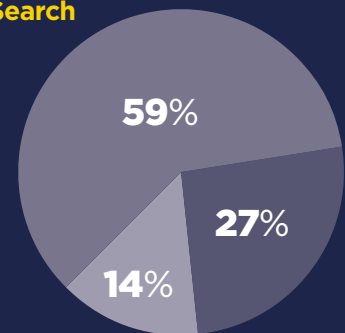
2013

\$790.5

2012

## By business segment \*

Executive  
Search



Futurestep

Leadership  
and Talent  
Consulting

\* FY 2014

# Dear **Stockholders,**

## **IN FISCAL YEAR 2014:**

- **Korn Ferry achieved fee revenue of \$960 million, an all-time high**
- **We maintained our No. 1 position among the “Big 5” global search firms**
- **We successfully integrated our prior year acquisitions**

Over the last 12 months, Korn Ferry has achieved several key milestones that mark our transformation as the world’s premier leadership and talent management organization.

Since Korn Ferry’s inception, clients have trusted us to help recruit world-class talent. Today, we have evolved into a single source for leadership and talent consulting services that go far beyond executive recruitment – encompassing leadership development, enterprise learning, succession planning, board and team effectiveness, recruitment process outsourcing, and more.

The needs of global organizations are rapidly changing. While finding and recruiting the right executives is still critical, companies also need expert help defining and developing their leaders of tomorrow.

For Korn Ferry, it all begins with our intellectual property. It is our belief that our firm has more data on senior-level leaders than just about anyone else. Through our talent analytics, which includes nearly 10 million executive profiles and assessments, we know what great looks like – by industry, by function, by skillset - and can harness this data to help our clients drive growth. This is a competitive advantage for our firm and a true differentiator.

Analytics and the intelligence they provide are the “table stakes” for talent management in this knowledge-driven economy. Leaders must be measured for specific skills and attributes, such as readiness to change and adapt. Do they have what it takes to handle complexity, ambiguity, and scale? With proprietary analytics, we feel we have a unique perspective on an organization’s executives.

As we go to market with our knowledge-driven approach, Korn Ferry’s flagship Executive Search business, which grew almost 10% at constant currency during the fiscal year, continues to serve as the tip of the spear. Our long heritage and prowess in Executive Search grants us license and access to C-suites across the globe – allowing us to engage in discussions with clients about other solutions, including what they are otherwise buying piecemeal from other providers.

Our Leadership and Talent Consulting business generated 27% of the firm’s fee revenue mix during the fiscal year. By crafting development solutions that help leaders, teams, individuals and organizations to grow, we are driving business results and delivering sustainable change. Korn Ferry is truly changing people’s lives, as evidenced by the 49,000 professionals who benefit from our development programs each month.

Our Futurestep business grew at an impressive rate of 13% at constant currency during the fiscal year, with Recruitment Process Outsourcing (RPO) assignments accounting for more than half of the Futurestep business. As RPO is embraced by global organizations, this service line will continue to embed us deeper in the clients we serve.

As pleased as I am with our results and accomplishments, I am even more excited about the

future. Our journey will be defined by innovation – leveraging data as a competitive differentiator and developing tools and solutions with intelligence and analytics that help our clients redefine their business through talent.

I would like to thank our 3,400 colleagues around the globe. Korn Ferry is a culturally diverse organization of talented professionals. They boldly challenge convention, offer unique perspectives, and generate innovative ideas. They think and act globally – just like our clients. By harnessing their passion and talents, we have an unrivaled ability to deliver our solutions on a global scale.

I also want to express my appreciation to our leadership team and our board of directors for their unwavering commitment to drive results for our clients and shareholders. No other single factor drives

an organization’s performance than the quality of its leaders; in that, Korn Ferry is no different.

Regards,

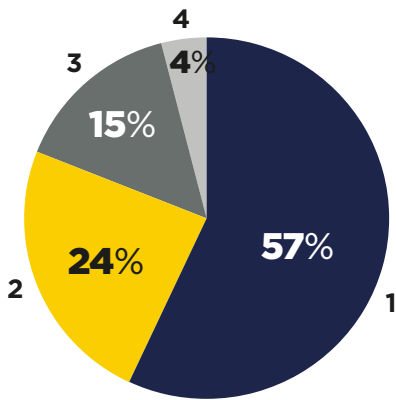


**Gary D. Burnison**

President and Chief Executive Officer

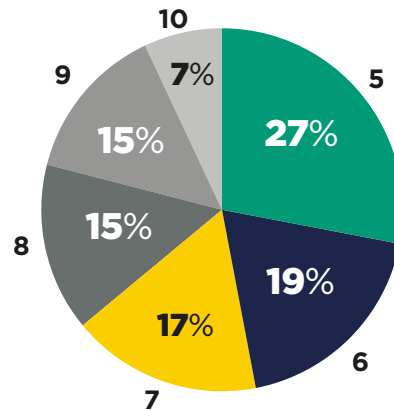


## Revenue – Global fee revenue in fiscal 2014



### BY REGION

1	North America	57%
2	EMEA	24%
3	Asia Pacific	15%
4	Latin America	4%



### BY INDUSTRY

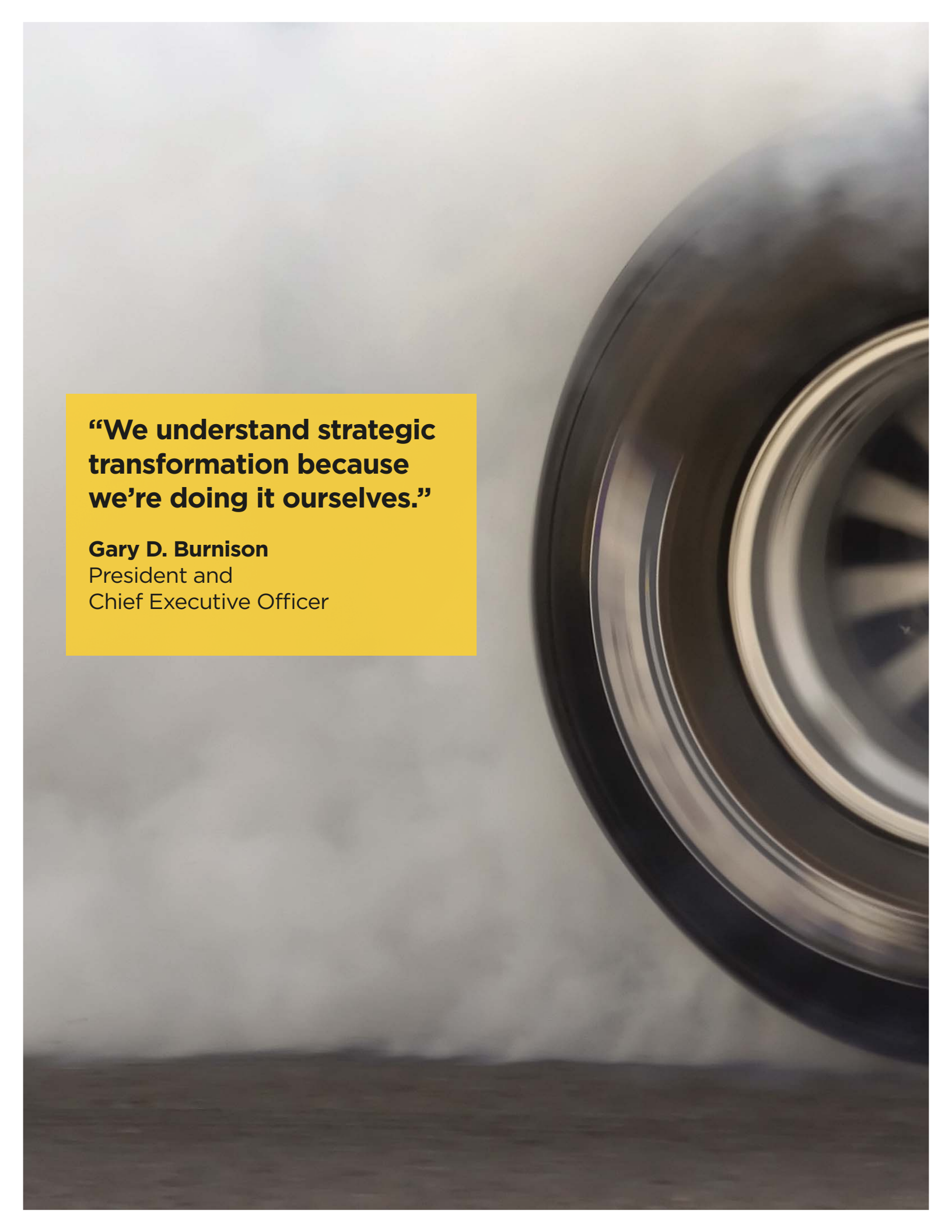
5	Industrial	27%
6	Life Sciences & Healthcare	19%
7	Consumer	17%
8	Financial Services	15%
9	Technology	15%
10	Education/Nonprofit	7%



### KORN FERRY'S BOARD OF DIRECTORS

**Top row** (l to r): George T. Shaheen (Non Executive Chairman), Jerry Leamon, Gary D. Burnison, Edward D. Miller,  
**Bottom row** (l to r): Debra Perry, Gerhard Schulmeyer, Harry L. You, William Floyd





**“We understand strategic transformation because we’re doing it ourselves.”**

**Gary D. Burnison**  
President and  
Chief Executive Officer



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

**Form 10-K**

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

For the fiscal year ended April 30, 2014

OR

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

Commission File Number 001-14505

**KORN/FERRY INTERNATIONAL**

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

95-2623879

(I.R.S. Employer  
Identification Number)

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

90067  
(Zip code)

(310) 552-1834

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value \$0.01 per share

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of our common stock as of June 20, 2014 was 49,855,509 shares. The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant on October 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter, (assuming that the registrant's only affiliates are its officers, directors and 10% or greater stockholders) was approximately \$1,198,760,447 based upon the closing market price of \$23.80 on that date of a share of common stock as reported on the New York Stock Exchange.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its 2014 Annual Meeting of Stockholders scheduled to be held on October 1, 2014 are incorporated by reference into Part III of this Form 10-K.

# KORN/FERRY INTERNATIONAL

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## **PART I.**

### **Item 1. Business**

#### **About Korn Ferry**

Korn/Ferry International (referred to herein as the “Company,” “Korn Ferry,” or in the first person notations “we,” “our,” and “us”) is a single source of leadership and talent consulting services. We opened our first office in Los Angeles in 1969 and currently operate in 84 offices in 37 countries. We have the ability to deliver our solutions on a global basis, wherever our clients do business. As of April 30, 2014, we had 3,396 full-time employees, including 432 Executive Recruitment, 127 Leadership & Talent Consulting, and 87 Futurestep consultants who are primarily responsible for client services. Our clients include many of the world’s largest and most prestigious public and private companies, middle market and emerging growth companies, as well as government and nonprofit organizations. We have built strong client loyalty with 80% of our assignments performed during fiscal 2014 on behalf of clients for whom we had conducted assignments in the previous three fiscal years.

We were originally formed as a California corporation in November 1969 and reincorporated as a Delaware corporation in fiscal 2000.

#### **The Korn Ferry Opportunity**

Since Korn Ferry’s inception, clients have trusted us to help recruit world-class talent. Today, we have evolved into a single source for leadership and talent consulting services going far beyond executive recruitment and encompassing leadership development, enterprise learning, succession planning, recruitment process outsourcing, and more.

We understand strategic transformation because we are doing it ourselves. Today, more than 41% of our business comes from outside our flagship Executive Recruitment solution.

By maximizing the human potential within organizations, we serve as a catalyst for growth, transformation, and high performance. Korn Ferry serves its global clients through a robust suite of diversified human capital solutions.

#### **About Our Solutions**

At Korn Ferry, we design, build and attract talent:

- When we **design**, we are crafting a unique talent strategy, through our expertise in organizational design and change management, that will help our clients navigate a successful course through even the most complex transformations. Our core solution includes:

## Talent Strategy & Organizational Alignment

We help clients align their talent processes and organizational capabilities to fully activate their business strategy.

- When we **build**, we are crafting development solutions that help leaders, teams, individuals, and whole organizations to grow — while also helping to drive business results and deliver sustainable change. Our solutions include:

### Board & CEO Services

We help boards and CEOs maximize their effectiveness by addressing the drivers affecting performance and ensuring orderly succession.

### Succession Management

We help organizations develop leaders that are ready when and where they are needed, now and in the future.

### Leadership Development

We help build leaders who can solve the business challenges of today — and create successful strategies for the future.

### Workforce Performance, Inclusion & Diversity

We help build and leverage a diverse workforce and create the environment, culture and practices to unleash an individual's potential.

- When we **attract**, we bring a depth of expertise to the business of identifying, attracting, and retaining the best board, C-suite, and executive-level talent. Recent years have seen us build on this core strength to become a global leader in recruitment solutions for every level of business. Our solutions include:

### Board, CEO, and Executive Recruitment

We integrate scientific research with practical experience and industry-specific expertise to identify and recruit board directors, CEOs, and senior-level executives across all sectors and functions.

### Professional Recruitment

We help organizations around the world identify and secure the best possible professional talent.

### Onboarding

We help executive's time-to-contribution by providing practical guidance on cultural integration and stakeholder management, as well as collaborating to define 100-day plans.

### Employer Brand and Talent Communications

We help companies create an employer value proposition as well as the messaging and tools that deliver a consistent brand experience across the employee lifecycle.

### Recruitment Process Outsourcing

We help organizations attract better people while simultaneously reducing cost and time to hire.

## **About Our Intellectual Property and Technology**

Korn Ferry is increasingly a knowledge-based company with deep intellectual property and research that allow us to deliver meaningful outcomes for our clients. We understand what makes a great leader, the competencies they possess that distinguish them from others, as well as the potential shortcomings that can damage their careers as well as their organization's performance. Today our talent data includes more than 2.5 million assessments (heavily weighted by the very top executive levels), and profiles of 7.0 million candidates. This database provides the insight and intelligence for Korn Ferry's team of social scientists to determine the true drivers of leadership and performance and how any individual or organization measures up.

Our vast library of proprietary tools and techniques has been developed through decades of pioneering research by our scientists, statisticians and intellectual property ("IP") development specialists. It underpins all of our services, giving us unique insight into how strategic talent decisions help contribute to competitive advantage

and success. We continue to add more discipline and scientific research into the recruitment and talent management process, with emphasis shifting from candidate identification to candidate assessment, fit and attraction. Driving this focus is our enhanced technology, as the power of the Internet, databases and online talent communities make it possible to efficiently identify greater numbers of qualified candidates. Innovative technology, when combined with world-class intellectual property and thought leadership, creates a compelling set of tools to manage the process of identifying, assessing and recruiting the most desirable candidates.

In the fiscal year ahead, a strong focus will be placed on a new talent analytics engine — the Korn Ferry Four Dimensions of Leadership Talent, which will harness all of our IP and provide global organizations with robust diagnostics at both the individual and enterprise levels. It will serve as the assessment engine for the firm’s executive search and professional recruiting processes, leadership development and consulting and recruitment process outsourcing engagements, as well as internal hiring and leadership development efforts. Korn Ferry has identified the following four crucial areas that matter most for individual and organizational success that will fuel the talent analytics engine — empowering Korn Ferry to help organizations accentuate strengths and identify areas to develop, as well as understand how they stack up against their competition:

- **Competencies** — the skills and behaviors required for success that can be observed.
- **Experiences** — assignments or roles that prepare a person for future opportunities.
- **Traits** — inclinations, aptitudes and natural tendencies, including personality and intellectual capacity.
- **Drivers** — values and interests that influence a person’s career path, motivation, and engagement.

### **About Our Business Segments**

Korn Ferry solutions and intellectual property are delivered through the following business segments to empower organizations and leaders to reach their goals:

*Executive Recruitment:* Our largest business focuses on recruiting board-level, chief executive and other senior executive positions for clients predominantly in the consumer, financial services, industrial, life sciences/healthcare provider, technology and educational industries. The relationships that we develop through this business allows us to add incremental value to our clients through the delivery of our many talent management solutions.

Our executive recruitment services concentrate on searches for positions with annual compensation of \$250,000 or more, or comparable in foreign locations, which may involve board-level, chief executive and other senior executive positions. The industry is comprised of retained and contingency recruitment firms. Retained firms, such as Korn Ferry, typically charge a fee for their services equal to approximately one-third of the first year annual cash compensation for the position being filled regardless of whether the position is filled. Contingency firms generally work on a non-exclusive basis and are compensated only upon successfully placing a recommended candidate.

*Leadership & Talent Consulting (“LTC”):* Our LTC services are accelerating our transformation into a broad-based talent management firm. Our comprehensive blend of talent management offerings assists clients with their ongoing assessment, organizational design and leadership development efforts. Our LTC offerings have recently been expanded and enhanced through the acquisitions of PDI Ninth House (“PDI”) and Global Novations, LLC (“Global Novations”). As discussed above, our services address five fundamental needs — Board & CEO Services, Leadership Development, Succession Management, Talent Strategy & Organizational Alignment, and Workforce Performance, Inclusion & Diversity. Each of Korn Ferry’s solutions is delivered by an experienced team of leadership consultants, a global network of top executive coaches and the intellectual property of research-based, time-tested leadership assessment and developmental tools.

*Professional and Recruitment Process Outsourcing:* In 1998, we extended our market reach into recruitment for non-executive professionals with the introduction of our subsidiary, Futurestep. Futurestep draws from Korn

Ferry's four decades of industry experience to offer fully customized, flexible services to help organizations meet their talent and recruitment needs. Our portfolio of services include Recruitment Process Outsourcing ("RPO"), Project Recruitment, Individual Search, Talent Consulting & Employer Branding.

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC"), pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. Our reports, proxy statements and other documents filed electronically with the SEC are available at the website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

We also make available, free of charge on the Investor Relations portion of our website at [www.kornferry.com](http://www.kornferry.com), our annual, quarterly, and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC.

We also make available on the Investor Relations portion of our website at [www.kornferry.com](http://www.kornferry.com) earnings slides and other important information, which we encourage you to review.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the Audit Committee, Compensation and Personnel Committee, and Nominating and Corporate Governance Committee of our Board of Directors are also posted on our website at <http://ir.kornferry.com>. Stockholders may request copies of these documents by writing to our Corporate Secretary at 1900 Avenue of the Stars, Suite 2600, Los Angeles, California 90067.

## **Industry Trends**

The current global economic environment is unpredictable as we face such challenges as low job growth and uneven consumer demand. Despite these market conditions, we remain vigilant about accelerating our clients' success and believe the mid- to long-term business outlook for the talent management industry is positive. Contributing to this is a confluence of market trends that should ultimately fuel more job growth and hiring, including the following:

*Consolidation of Talent Management Solution Providers* — In choosing recruitment and human resource service providers, we believe:

- Companies are actively in search of preferred providers in order to create efficiencies and consolidate vendor relationships;
- Companies that can offer a full suite of talent management solutions are becoming increasingly attractive; and
- Clients seek trusted advisors who understand their business and unique organizational culture in order to manage the multiple needs of their business on a global scale.

*Skills Gaps* — There are not enough highly "skilled" people coming into the labor market to fill open jobs. Particularly at the senior management levels, the available talent pool is inadequate. New leaders must step into bigger, more complex, and more global roles faster — and with less experience — than their predecessors. We believe employers will increasingly seek service providers who can help them find, develop and retain highly qualified talent that secures a competitive advantage.

*Human Capital Is One of the Top CEO Challenges* — Whereas the innovation solution used to be technology, now the human element — the people, the minds, the alliances and the culture that can create and then nurture innovative ideas — are seen as central to CEOs. In fact, according to the Conference Board, human capital — how best to develop, engage, manage and retain talent — is the single biggest challenge facing CEOs in 2014.



*Emerging Markets Are Focus for New Growth* — We are experiencing a global workforce imbalance as slower-growth countries are facing hiring slowdowns and emerging economies' need for talent is increasing. If emerging markets in Asia, Eastern Europe and Africa are to continue their growth trajectory, they will need to solve human capital issues such as how to attract, engage and retain highly competent, innovative talent, as well as how to develop effective leaders to drive the business. As companies expand internationally, and different markets present more attractive business opportunities, they have to think about their workforce and talent in this way too. Clients are turning to firms that understand the global complexities impacting workforce planning today.

*Talent Analytics* — Companies are increasingly leveraging big data and analytics to measure the influence of activities across all aspects of their business, including HR. They expect their service providers to deliver superior metrics and measures and better ways of communicating results. Korn Ferry's go-to-market approach is increasingly focused on talent analytics — we are injecting research-based intellectual property into all areas of our business, cascading innovation and new offerings up to our clients.

*Increased Outsourcing of Recruitment Functions* — More companies are focusing on core competencies and outsourcing non-core, back-office functions to providers who can provide efficient, high-quality services. Third-party providers can apply immediate and long-term approaches for improving all aspects of talent acquisition. Advantages to outsourcing part or all of the recruitment function include:

- Access to a diverse and highly qualified pool of candidates, which is refreshed on a regular basis;
- Reduction or elimination of the costs required to maintain and train an in-house recruiting department in a rapidly changing industry;
- Ability to use the workflow methodologies we have developed over tens of thousands of assignments, which allows clients to fulfill positions on a streamlined basis;
- Access to the most updated industry and geographic market information;
- Access to cutting-edge search technology software; and
- Ability to maintain management focus on core strategic business issues.

*Other Industry Trends* — In addition to the industry trends mentioned above, we believe the following factors will have a long-term positive impact on the talent management industry:

- Increasing demand for professionals with not just the right technical skills, but also the right leadership style, values and motivation to meet the specific requirements of the position and organizational culture;
- Decreasing executive management tenure and more frequent job changes;
- Retiring baby boomers, creating a skills gap in the workforce;
- Shifting balance of power towards the employee as more people take charge of their own careers, and the new norm of employee-driven development;
- Increasing importance of talent mobility in engaging and developing people within an organization; and
- Increased attention on succession planning due to heightened scrutiny on CEOs, pressure to generate growth, shorter CEO tenures and the emphasis being placed on making succession planning a systemic governance process within global organizations.

## **Growth Strategy**

Our objective is to expand our position as a single source of leadership and talent consulting services. In order to meet this objective, we will continue to pursue five strategic initiatives:

### ***1. Drive an Integrated, Solutions-Based Go-to-Market Strategy***

*Differentiating Client Value Proposition* — Korn Ferry offers its clients a global, integrated, enterprise-wide talent management solution. To that end, we have made progress in helping clients design talent strategies that

accelerate business outcomes. Where there are critical gaps, we build talent from within and attract new talent from the outside.

In analyzing talent management across the entire value chain, Korn Ferry has developed a robust suite of offerings and leverages our market-leading position in executive recruitment to extend the value we bring our clients through our diversified capabilities along the rest of the talent lifecycle through our LTC and Futurestep service lines.

Our synergistic go-to-market strategy, utilizing all three of our service lines, is driving more integrated, scalable client relationships, while accelerating our evolution to a consultative solutions-based organization. This is evidenced by the fact that nearly 88% of our top 50 clients utilize at least two of our service lines.

We are an increasingly diversified enterprise in the world of human capital services and products, an industry that represents an estimated \$330 billion global market opportunity.

In an effort to better coordinate global recruiting and to gain operational efficiencies, we expect that multinational clients increasingly will turn to strategic partners who can manage their recruitment needs on a centralized basis. This will require vendors with a global network of offices and technological support systems to manage multiple hires across geographical regions. We established our Strategic Accounts program to act as a catalyst for change as we transform our Company from individual operators to an integrated talent solutions provider, in an effort to drive major global and regional strategic account development as well as to provide a framework for all of our client development activities. Today, the program consists of global colleagues from every line of business and geography. We are cascading this methodology throughout every market, country and office.

## ***2. Deliver Unparalleled Client Excellence***

*World-class Intellectual Property* — Korn Ferry continues to scale and more deeply embed our industry-leading intellectual property within the talent management processes of our global clients.

Our IP-driven tools and services are being utilized by our clients for everything from organizational development and job profiling to selection, training, individual and team development, succession planning and more. We have more than doubled our leadership products business since acquiring Lominger in 2006. Our Global Products Group helps us generate long-term relationships with our clients. We continue to seek ways to scale our product offering to our global clients.

Global organizations utilizing our Company's validated assessment capability are realizing the power and benefits of Korn Ferry IP in their talent evaluation process. Our assessment capability, currently utilized by more than 70% of our clients, can improve executive retention and prospects of promotion. According to internal research conducted by Korn Ferry over the period of 2006-2009, executive candidates placed in a position where our proprietary assessment methodology was utilized were eight times more likely to be promoted within the first three years of employment than those searches where our assessment tool was not employed.

Our IP orientation is further validated by our recent acquisitions of PDI and Global Novations. These firms offer a variety of leadership development, coaching and assessment solutions for different organizational levels, as well as technology-driven talent management solutions.

*Technology* — Information technology is a critical element of all of our businesses. In fiscal 2014, we continued to invest in enhanced tools and knowledge management to gain a competitive advantage. We introduced enhancements to *Searcher Express*, our engagement execution platform and the cornerstone of the Company's strategy to better share knowledge. We continued our initiative to consolidate regional databases to improve cross border collaboration and visibility of multinational engagements and clients. We introduced

*KF Insight*, an iOS mobile application that enables our consultants to have a 360-degree view of all activities across Korn Ferry at their clients, providing them the secure tools to enable more integrated, scalable client relationships. We continued to invest in our IT security team and enhanced our security infrastructure to protect the Company's assets against today's threats.

The technology supporting LTC continued to evolve in fiscal 2014 through the integration of our intellectual property into our assessment and talent management services. Through the PDI acquisition, we acquired a sophisticated technology platform (*PALMS*) and a robust library of intellectual property. *PALMS* provides Korn Ferry with the client-facing technology platform to launch all assessment activities, a centralized database to track and analyze all assessment data and an e-learning platform to launch interactive, simulation based learning modules. In fiscal 2014, we completed implementation of a scalable intellectual property content repository, allowing us to leverage our IP across all products and services, within LTC and across lines of business. This enables us to continue to integrate *PALMS* across the entire LTC portfolio, and we have started work on a unified talent analytics layer to support Korn Ferry's strategy to address this key industry trend.

Information technology is a key driver of Futurestep's growth in RPO, project recruitment and search. Database technology and the Internet have greatly improved capabilities in identifying, targeting and reaching potential candidates. In fiscal 2014, we continued the integration of advanced, Internet-based sourcing, assessment and selection technologies into the engagement workflow. We expanded the use of *Foresight*, our data aggregation warehouse for analytical reporting of Futurestep recruiting activities across internal systems and external clients' applicant tracking systems.

We are committed to investing in technology across all lines of business — extending the Company's brand through integration with social networks — and delivering our unique intellectual property through smart phones and tablets. In fiscal 2014, *Forte*, a mobile/desktop application for career development and transitions, was enhanced to be used in more client situations, now not just for RPO but as a value-added component of broader LTC service offerings. It enables users to build a customized, personal development plan drawing on the Korn Ferry assessment and development portfolio.

We will continue to enhance our technology in order to strengthen our relationships with clients, expand our markets through new delivery channels and maintain a competitive advantage in offering the full range of executive talent management services.

### ***3. Extend and Elevate the Korn Ferry Brand***

Next to our people, the Korn Ferry brand is the strongest asset of the Company. Since inception, Korn Ferry has always maintained an aggressive stance in building our global presence and supporting our vision and ongoing growth through a comprehensive marketing approach. At the highest level, we will continue to extend and elevate the Korn Ferry brand to raise awareness and drive higher market share within key segments.

Our leadership in executive recruitment enables us to grow our business by increasing the number of recruitment assignments we handle for existing clients. We also believe that our strong relationships and well-recognized brand name will enable us to bring a broader base of solutions and services to our existing client base and to potential new clients, while allowing us to build communities of candidates to whom we can directly market our services.

For example, we will leverage the work our Board & CEO Services practice performs at the top of our clients' organizations to promote awareness of our various solutions at the highest levels. We believe these engagements will create significant "trickle-down" revenue opportunities across all of our lines of business and lead to the expansion of other high-level, consultative relationships within the board and CEO community.

We drive additional awareness and brand equity through an aggressive global marketing program that leverages Korn Ferry Institute-generated thought leadership (whitepapers, bylined articles, and our

award-winning *Briefings* periodical), aggressive media relations, social media, a sophisticated demand generation platform and other vehicles that include sponsorships, speaking opportunities, advertising and events.

#### ***4. Advance Korn Ferry as a Premier Career Destination***

As our business strategy evolves, so should our talent strategy in order to drive the growth we need and the culture we want, at a pace we can absorb. Our talent strategy is what we do to allow us to design, build and attract the best talent for ourselves (and, by extension, for our clients) to achieve our business potential.

Our goal is to become the premier career destination for top talent through offering a client-focused culture, promotional/developmental opportunities and compensation that aligns employee behavior to corporate strategy.

#### ***5. Pursue Transformational Opportunities Along the Broad Human Resources Spectrum***

In addition to our heritage as a provider of executive recruitment, we also offer clients RPO, Project Recruitment, Individual Search, Talent Consulting and Employer Branding services through Futurestep, and Board & CEO, Leadership Development, Succession Management, Talent Strategy & Organizational Alignment, and Workforce Performance, Inclusion & Diversity services through LTC.

We will continue to develop and add new products and services that our clients demand and continue to pursue a disciplined acquisition strategy, both of which are consistent with our strategic goals.

We continue to support an in-depth and ongoing professional development program called *The Edge* for our consultants and client-facing practitioners to further train them on our strategy, our various solutions and a systematic approach for broadening the conversations, and subsequently, the relationships with our clients.

### **Our Services and Organization**

#### **Organization**

The Company operates in three global business segments: Executive Recruitment, LTC, and Futurestep. Our executive recruitment business is managed on a geographic basis throughout our four regions: North America, Europe, the Middle East and Africa (“EMEA”), Asia Pacific and South America. LTC and Futurestep are managed on a worldwide basis with operations in North America, Europe, Asia Pacific and South America.

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

#### ***Executive Recruitment Services***

*Overview* — Our executive recruitment services are typically used to fill executive-level positions, such as board directors, CEO’s, chief financial officers (“CFO”), chief operating officers (“COO”), chief information officers (“CIO”) and other senior executive officers. As part of being retained by a client to conduct a search, we assemble a team comprised of consultants with appropriate geographic, industry and functional expertise. Our search consultants serve as management advisors who work closely with the client in identifying, assessing and placing qualified candidates. In fiscal 2014, we executed 8,144 executive recruitment assignments.

We utilize a standardized approach to placing talent that integrates research with our practical experience. Providing a more complete view of the candidate than is otherwise possible, we believe our proprietary tools generate better results in identifying the right person for the position. We call our executive recruitment methodology *The Korn Ferry Advantage*.

We emphasize a close working relationship with the client and a comprehensive understanding of the client’s business issues, strategy and culture, as well as an in-depth knowledge of the skills necessary to succeed

within a client’s organization. Initially, the search team consults with the client to better understand its history, culture, structure, expectations, challenges, future direction and operations. In these meetings, the team identifies the specific needs of the client and develops a profile of an ideal candidate for the position using our proprietary *Leadership Sort System*, which allows clients to select the desired leadership characteristics for specific roles. Early in the process, the team also works with the client to develop the general parameters of a compensation package that will attract highly qualified candidates.

Once the position is defined and outlined via an enhanced job specification that embodies the desired leadership characteristics, a research team identifies, through the use of our proprietary databases and other information resources, companies in related industries facing similar issues and with operating characteristics similar to those of the client. In addition, the team consults with its established network of resources and searches our databases containing profiles of approximately five million executives to assist in identifying individuals with the right background, cultural fit and abilities. These resources are a critical element in assessing the marketplace.

An original list of candidates is carefully screened through phone interviews, video conferences and in-person meetings, using our proprietary behavioral interviewing approach. Candidates also complete *Search Assessment<sup>SM</sup>*, a behavioral mapping tool that provides clients with insights into how candidates will lead, how they will approach and solve complex problems, what their emotional profile is likely to be and what motivates them to succeed. The client is then presented final qualified candidates to interview. We conduct due diligence and background verification of the candidates throughout the process, at times with the assistance of an independent third party.

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

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

**Percentage of Fiscal 2014 Assignments by Industry Specialization**

**Global Markets:**

Industrial . . . . .	26%
Life Sciences/Healthcare Provider . . . . .	19%
Technology . . . . .	18%
Consumer . . . . .	16%
Financial Services . . . . .	14%

**Regional Specialties:**

Education/Not-for-Profit . . . . .	7%
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*Functional Expertise* — We have organized executive recruitment centers of functional expertise, composed of consultants who have extensive backgrounds in placing executives in certain functions, such as board directors, CEOs and other senior executive officers. Our Board & CEO Services group, for example, focuses exclusively on placing CEOs and board directors in organizations around the world. This is a dedicated team from the most senior ranks of the Company. Their work is with CEOs and in the board room, and their expertise is organizational leadership and governance. They conduct hundreds of engagements every year, tapping talent from every corner of the globe. This work spans all ranges of organizational scale and purpose. Members of functional groups are located throughout our regions and across our industry groups.

### Percentage of Fiscal 2014 Assignments by Functional Expertise

Board Level/CEO/CFO/Senior Executive and General Management . . . . .	74%
Finance and Control . . . . .	8%
Marketing and Sales . . . . .	6%
Manufacturing/Engineering/Research and Development/Technology . . . . .	5%
Human Resources and Administration . . . . .	4%
Information Systems . . . . .	3%

#### *Regions*

*North America* — We currently have 20 offices throughout the United States and Canada. In fiscal 2014, the region generated fee revenue of \$306.8 million and opened 2,170 new engagements with an average of 198 consultants.

*EMEA* — We currently have 19 offices in 17 countries throughout the region. In fiscal 2014, the region generated fee revenue of \$147.9 million and opened 1,456 new engagements with an average of 122 consultants.

*Asia Pacific* — We currently have 18 offices in 10 countries throughout the region. In fiscal 2014, the region generated fee revenue of \$84.8 million and opened 982 new engagements with an average of 77 consultants.

*South America* — We currently operate a network of 8 offices in 7 countries covering the entire South American region. The region generated fee revenue of \$29.4 million in fiscal 2014 and opened 444 new engagements with an average of 19 consultants.

*Mexico* — We currently serve our clients' needs in two offices in Mexico through a subsidiary in which we hold a minority interest. Our share of the net earnings from our Mexico subsidiary was \$1.8 million for the year ended April 30, 2014 and is included in equity in earnings of unconsolidated subsidiaries on the consolidated statement of income for the year ended April 30, 2014.

*Client Base* — Our 5,175 clients include many of the world's largest and most prestigious public and private companies, and 59% of FORTUNE 500 companies were clients in fiscal 2014. In fiscal 2014, only one single client represented more than 1% of fee revenue, with that client representing 1.5%.

*Competition* — Other multinational executive recruitment firms include Egon Zehnder International, Heidrick & Struggles International, Inc., Russell Reynolds Associates and Spencer Stuart. Although these firms are our largest competitors, we also compete with smaller boutique firms that specialize in specific regional, industry or functional searches. We believe our brand name, differentiated business model, systematic approach to client service, cutting-edge technology, global network, prestigious clientele, strong specialty practices and high-caliber colleagues are recognized worldwide. We also believe our long-term incentive compensation arrangements, as well as other executive benefits, distinguish us from most of our competitors and are important in attracting and retaining our key consultants.

#### *Leadership & Talent Consulting Services*

Our strategic management assessment and executive coaching and development services are consolidated under the name *Leadership & Talent Consulting* to reflect the array of solutions we offer and to accommodate further growth. We have made significant investments in these service areas with the acquisitions of Lominger Limited, Inc., Lominger Consulting ("Lominger") and LeaderSource in fiscal 2007, Lore International in fiscal



2009, SENSE Solutions in fiscal 2010, and PDI and Global Novations in fiscal 2013. Our comprehensive blend of talent management offerings assists clients with the ongoing assessment and development of their senior executives and management teams and addresses five fundamental needs:

1. Board & CEO Services;
2. Leadership Development;
3. Succession Management;
4. Talent Strategy & Organizational Alignment; and
5. Workforce Performance, Inclusion & Diversity.

Each of Korn Ferry's solutions is delivered by an experienced team of leadership consultants, a global network of top executive coaches and the intellectual property of research-based, time-tested leadership assessment and developmental tools. As of April 30, 2014, we had LTC operations in 15 cities in North America, 9 in Europe, 12 in Asia Pacific, and 5 in Latin America.

*Client Base* — During fiscal 2014, LTC partnered with 2,414 clients across the globe, including 54% of the FORTUNE 500.

*Competition* — Our main competitors include firms like SAP, Oracle, Development Dimensions International, Center for Creative Leadership, Right Management, and SHL, a subsidiary of Corporate Executive Board. Although these firms are our largest competitors, we also compete with smaller boutique firms that specialize in specific regional, industry or functional aspects of talent management. We believe the strong leadership brands that comprise LTC offer a robust, research-based leadership and talent management content.

### ***Professional and Outsourced Solutions — Futurestep***

*Overview* — Futurestep offers clients a portfolio of talent acquisition solutions, including RPO, Project Recruitment, Individual Search, Talent Consulting and Employer Branding. Each Futurestep engagement leverages a world-class global recruitment process and best-in-class technology to maximize and measure quality.

Futurestep combines traditional recruitment expertise with a multi-tiered portfolio of talent acquisition solutions. Futurestep consultants, based in 18 countries, have access to our databases of pre-screened, mid-level professionals. Our global candidate pool complements our international presence and multi-channel sourcing strategy to aid speed, efficiency and quality service for clients worldwide.

Futurestep RPO solutions are flexible and scalable, improving talent operations and delivering business impact for today's large, complex and global organizations.

Project Recruitment services offer a proven, outsourced approach for managing multiple hires within a specific timeframe.

In terms of Search, Futurestep's brand association with Korn Ferry has helped us become regarded by today's industry leaders as a trusted resource for securing management and specialized talent on a professional level.

Talent Consulting services support clients with the wider aspects of the employee lifecycle including recruitment diagnostic, workforce planning, talent communication and employer brand, candidate assessment and selection and recruitment technology services.

Employer Branding services help clients create a compelling employer brand experience. We use the latest research techniques to identify each client's unique Employer Value Proposition and then bring it to life across the full range of traditional and digital media.

*Regions* — We opened our first Futurestep office in Los Angeles in May 1998. In January 2000, we acquired the Executive Search & Selection business of PA Consulting with operations in Europe and Asia Pacific. As of April 30, 2014, we had Futurestep operations in 9 cities in North America, 10 in Europe, 14 in Asia Pacific, and 2 in Latin America.

*Client Base* — During fiscal 2014, Futurestep partnered with 1,130 clients across the globe and 32% of Futurestep's fiscal 2014 fee revenue was referred from Korn Ferry's Executive Recruitment and LTC segments.

*Competition* — Futurestep primarily competes for business with other RPO providers such as Alexander Mann Solutions, Hays, Kenexa, Spherion, KellyOCG and The RightThing and competes for search assignments with regional contingency recruitment firms and large national retained recruitment firms.

For talent acquisition and management consulting services, Futurestep competes with boutique consulting providers such as HRchitect and Knowledge Infusion and larger consulting firms such as Accenture, Aon Hewitt and Towers Watson that are building businesses in human resource management consulting.

### ***Professional Staff and Employees***

We have a wealth of talent at our disposal. Our firm brings together the best and brightest from a wide range of disciplines and professions — everything from academic research and technology development to executive recruiting, consulting, and business leadership. We're also a culturally diverse organization. Our people come from all over the world and speak a multitude of languages. For us, this diversity is a key source of strength. It means we have people who are able to challenge convention, offer unique perspectives, and generate innovative ideas. Equally important, it means we can think and act globally — just like our clients.

As of April 30, 2014, we had a total of 3,396 full-time employees. Of this, 1,566 were executive recruitment employees consisting of 432 consultants and 1,134 associates, researchers, administrative and support staff. In addition, there are 10 consultants in our unconsolidated Mexico office. LTC had 794 employees as of April 30, 2014, consisting of 127 consultants and 667 associates, researchers, administrative and support staff. Futurestep had 958 employees as of April 30, 2014, consisting of 87 consultants and 871 administrative and support staff. Corporate had 78 professionals at April 30, 2014. We are not party to a collective bargaining agreement and consider our relations with our employees to be good. Korn Ferry is an equal opportunity employer.

In Executive Recruitment, senior associates, associates and researchers support the efforts of our consultants with candidate sourcing and identification, but do not generally lead assignments. These colleagues are developed through our training and professional development programs. Promotion to senior client partner is based on a variety of factors, including demonstrated superior execution and business development skills, the ability to identify solutions to complex issues, personal and professional ethics, a thorough understanding of the market and the ability to develop and help build effective teams. In addition, we have a program for recruiting experienced professionals into our Company.

The following table provides information relating to each of our business segments for fiscal 2014. Financial information regarding our business segments for fiscal 2013 and 2012 and additional information for

fiscal 2014 is contained in Note 11 — *Business Segments*, in the Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K, which is incorporated herein by reference.

	<u>Fee Revenue</u>	<u>Operating Income (Loss)</u>	<u>Number of Offices as of April 30, 2014</u>	<u>Number of Consultants as of April 30, 2014</u>
	(dollars in thousands)			
<b>Executive Recruitment:</b>				
North America .....	\$306,768	\$ 70,256	20	200
EMEA .....	147,917	23,168	19	128
Asia Pacific .....	84,816	17,274	18	84
South America .....	29,374	5,654	8	20
Total Executive Recruitment (1) .....	568,875	116,352	65	432
LTC (2) .....	254,636	23,847	9	127
Futurestep (3) .....	136,790	13,352	10	87
Corporate .....	—	(61,943)	—	—
<b>Total</b> .....	<u>\$960,301</u>	<u>\$ 91,608</u>	<u>84</u>	<u>646</u>

- (1) Executive Recruitment partially occupies 2 of Futurestep offices globally in 2 countries and 1 of LTC offices globally in 1 country.
- (2) Leadership & Talent Consulting partially occupies 34 of the executive recruitment offices globally in 20 countries.
- (3) Futurestep partially occupies 26 of the executive recruitment offices globally in 15 countries.

The following table provides information on fee revenues for each of the last three fiscal years attributable to the regions in which the Company operates:

	<u>Year Ended April 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)		
<b>Fee Revenue:</b>			
United States .....	\$507,280	\$416,987	\$383,955
Canada .....	38,113	42,263	45,164
EMEA .....	232,329	192,242	196,514
Asia Pacific .....	145,452	124,720	128,281
South America .....	37,127	36,619	36,591
Total .....	<u>\$960,301</u>	<u>\$812,831</u>	<u>\$790,505</u>

Additional financial information regarding the regions in which the Company operates can be found in Note 11 — *Business Segments*, in the Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

## **Item 1A. Risk Factors**

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

***Competition in our industries could result in our losing market share and/or require us to charge lower prices for services, which could reduce our revenue.***

We compete for executive recruitment business with numerous executive recruitment firms and businesses that provide job placement services, including other large global executive search firms, smaller specialty firms and web-based firms. Traditional executive recruitment competitors include Egon Zehnder International, Heidrick & Struggles International, Inc., Russell Reynolds Associates and Spencer Stuart. In each of our markets, our competitors may possess greater resources, greater name recognition, lower overhead or other costs and longer operating histories than we do, which may give them an advantage in obtaining future clients, capitalizing on new technology and attracting qualified professionals in these markets. Additionally, specialty firms can focus on regional or functional markets or on particular industries and executive search firms that have a smaller client base may be subject to fewer off-limits arrangements. There are no extensive barriers to entry into the executive recruitment industry and new recruiting firms continue to enter the market. We believe the continuing development and increased availability of information technology will continue to attract new competitors, especially web-enabled professional and social networking website providers and these providers may be facilitating a company's ability to insource their recruiting capabilities. As these providers continue to evolve, they may develop offerings similar to or more expansive than ours, thereby increasing competition for our services or more broadly causing disruption in the executive recruitment industry. The human resource consulting business has been traditionally fragmented and a number of large consulting firms, such as Accenture, Aon Hewitt and Towers Watson are building businesses in human resource management consulting to serve these needs. Increased competition, whether as a result of these professional and social networking website providers or traditional executive recruitment firms, may lead to pricing pressures that could negatively impact our business. For example, increased competition could require us to charge lower prices, and/or cause us to lose market share, each of which could reduce our fee revenue.

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

We compete with other executive recruitment and consulting firms for qualified and experienced consultants. These other firms may be able to offer greater compensation and benefits or more attractive lifestyle choices, career paths or geographic locations than we do. Attracting and retaining consultants in our industry is particularly important because, generally, a small number of consultants have primary responsibility for a client relationship. Because client responsibility is so concentrated, the loss of key consultants may lead to the loss of client relationships. In 2014, for example, our top three executive search consultants had primary responsibility for generating business equal to approximately 2% of our net revenues, and our top ten executive search consultants had primary responsibility for generating business equal to approximately 5% of our net revenues. This risk is heightened due to the general portability of a consultant's business; consultants have in the past, and will in the future, terminate their employment with our Company. Any decrease in the quality of our reputation, reduction in our compensation levels relative to our peers or restructuring of our compensation program, whether as a result of insufficient revenue, a decline in the market price of our common stock or for any other reason, could impair our ability to retain existing consultants or attract additional qualified consultants with the requisite experience, skills and established client relationships. Our failure to retain our most productive consultants, whether in Executive Recruitment, LTC or Futurestep, or maintain the quality of service to which our clients are accustomed and the ability of a departing consultant to move business to his or her new employer could result in a loss of clients, which could in turn cause our fee revenue to decline and our business to be harmed. We may also lose clients if the departing executive search, LTC or Futurestep consultant has widespread name recognition

or a reputation as a specialist in his or her line of business in a specific industry or management function. We could also lose additional consultants if they choose to join the departing executive search consultant at another executive search or consulting firm. If we fail to limit departing consultants from moving business or recruiting our consultants to a competitor, our business, financial condition and results of operations could be adversely affected.

***Acquisitions, or our inability to effect acquisitions, may have an adverse effect on our business.***

As part of our growth strategy, we have completed strategic acquisitions of businesses in the last several years, including our acquisitions of PDI and Global Novations in fiscal 2013. While we may, under certain circumstances, pursue additional acquisitions in the future, our ability to consummate such acquisitions on satisfactory terms will depend on:

- the extent to which acquisition opportunities become available;
- our success in bidding for the opportunities that do become available;
- negotiating terms that we believe are reasonable; and
- regulatory approval, if required.

Our ability to make strategic acquisitions may also be conditioned on our ability to fund such acquisitions through the incurrence of debt or the issuance of equity. If we are required to incur substantial indebtedness in connection with an acquisition, and the results of the acquisition are not favorable, the increased indebtedness could decrease the value of our equity. In addition, if we need to issue additional equity to consummate an acquisition, doing so would cause dilution to existing stockholders.

If we are unable to make strategic acquisitions, or the acquisitions we do make are not on terms favorable to us or not effected in a timely manner, it may impede the growth of our business, which could adversely impact our profitability and our stock price.

***Our ability to integrate future acquisition, if any, could negatively affect our business and profitability.***

Our future success may depend in part on our ability to complete the integration of the acquisition target successfully into our operations. The process of integrating an acquired business may subject us to a number of risks, including:

- diversion of management attention;
- amortization of intangible assets, adversely affecting our reported results of operations;
- inability to retain and/or integrate the management, key personnel and other employees of the acquired business;
- inability to properly integrate business acquisitions resulting in operating inefficiencies;
- inability to establish uniform standards, disclosure controls and procedures, internal control over financial reporting and other systems, procedures and policies in a timely manner;
- inability to retain the acquired company's clients;
- exposure to legal claims for activities of the acquired business prior to acquisition; and
- incurrence of additional expenses in connection with the integration process.

If our acquisitions are not successfully integrated, our business, financial condition and results of operations, as well as our professional reputation, could be materially adversely affected.

***Global economic developments and the conditions in the geographic regions and the industries from which we derive a significant portion of our fee revenue could negatively affect our business, financial condition and results of operations.***

Demand for our services is affected by global economic conditions and the general level of economic activity in the geographic regions and industries in which we operate. When conditions in the global economy, including the credit markets, deteriorate, or economic activity slows, many companies hire fewer permanent employees and some companies, as a cost-saving measure, choose to rely on their own human resources departments rather than third-party search firms to find talent, which negatively affects our financial condition and results of operations, as evidenced by our results of operations during the Great Recession of 2008 and 2009 that continued to impact our results of operations through fiscal 2010. We may also experience more competitive pricing pressure during periods of economic decline. While the economic activity in the regions and industries in which we operate has shown improvement, general market uncertainty continues to exist. If such uncertainty persists, if the national or global economy or credit market conditions in general deteriorate, or if the unemployment rate increases, such uncertainty or changes could put additional negative pressure on demand for our services and our pricing, resulting in lower cash flows and a negative effect on our business, financial condition and results of operations. In addition, some of our clients may experience reduced access to credit and lower revenues resulting in their inability to meet their payment obligations to us.

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

Our future success depends upon the continued service of our executive officers and other key management personnel. Competition for qualified personnel is intense, and we may compete with other companies that have greater financial and other resources than we do. If we lose the services of one or more of our executives or key employees, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, or if we are unable to integrate new members of our senior management who are critical to our business, we may not be able to successfully manage our business or achieve our business objectives.

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

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

If any factor, including poor performance or negative publicity, whether or not true, hurts our reputation, we may experience difficulties in competing successfully for both new engagements and qualified consultants. Failing to maintain our professional reputation and the goodwill associated with our brand name could seriously harm our business.

***The expansion of social media platforms presents new risks and challenges.***

The inappropriate and/or unauthorized use of certain media vehicles could cause damage to our brand or information leakage that could lead to legal implications, including from improper collection and/or dissemination of personally identifiable information of candidates and clients. In addition, negative or inaccurate posts or comments about us on any social networking website could damage our reputation, brand image and goodwill. Further, the disclosure of our sensitive non-public information through external media channels could lead to information loss, as there might not be structured processes in place to secure and protect information. Identifying new points of entry as social media continues to expand presents new challenges.



***We are subject to potential legal liability from clients, employees and candidates for employment. Insurance coverage may not be available to cover all of our potential liability and available coverage may not be sufficient to cover all claims that we may incur.***

Our ability to obtain liability insurance, its coverage levels, deductibles and premiums are all dependent on market factors, our loss history and insurers' perception of our overall risk profile. We are exposed to potential claims with respect to the executive recruitment process. For example, a client could assert a claim for matters such as breach of an off-limit agreement or recommending a candidate who subsequently proves to be unsuitable for the position filled. Further, the current employer of a candidate whom we placed could file a claim against us alleging interference with an employment contract, a candidate could assert an action against us for failure to maintain the confidentiality of the candidate's employment search, and a candidate or employee could assert an action against us for alleged discrimination, violations of labor and employment law or other matters. Also, in various countries, we are subject to data protection laws impacting the processing of candidate information and other regulatory requirements.

Additionally, as part of our LTC services, we often send a team of leadership consultants to our client's workplaces. Such consultants generally have access to client information systems and confidential information. An inherent risk of such activity includes possible claims of misuse or misappropriation of client intellectual property, confidential information, funds, or other property; harassment; criminal activity; torts; or other claims. Such claims may result in negative publicity, injunctive relief, criminal investigations and/or charges, payment by us of monetary damages or fines, or other material adverse effects on our business.

We cannot ensure that our insurance will cover all claims or that insurance coverage will be available at economically acceptable rates. Our insurance may also require us to meet a deductible. Significant uninsured liabilities could have a material adverse effect on our business, financial condition and results of operations.

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

Our success depends in large part upon our ability to store, retrieve, process, manage and protect substantial amounts of information. To achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our information systems. This may require the acquisition of equipment and software and the development of new proprietary software, either internally or through independent consultants. If we are unable to design, develop, implement and utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or for any reason any interruption or loss of our information processing capabilities occurs, this could harm our business, results of operations and financial condition. Although we have disaster recovery procedures in place and insurance to protect against the effects of a disaster on our information technology, we cannot be sure that insurance or these services will continue to be available at reasonable prices, cover all our losses or compensate us for the possible loss of clients occurring during any period that we are unable to provide business services.

***Cyber security vulnerabilities could lead to improper disclosure of information obtained from our clients, candidates and employees that could result in liability and harm our reputation.***

We use information technology and other computer resources to carry out operational and marketing activities and to maintain our business records. The continued occurrence of high-profile data breaches against various entities and organizations provides evidence of an external environment increasingly hostile to information security. This environment demands that we continuously improve our design and coordination of security controls across our business groups and geographies in order to protect information that we develop or that is obtained from our clients, candidates and employees. Despite these efforts, given the ongoing and increasingly sophisticated attempts to access the information of entities, our security controls over this information, our training of employees, and other practices we follow may not prevent the improper disclosure of

such information. In fiscal 2013, we discovered that our computer network was the target of a criminal data breach that accessed certain such information obtained from our clients, candidates and employees. The information we collected about this breach suggests that the intrusion falls within the category of an “Advanced Persistent Threat”, which is activity consistent with state sponsored cyber criminals. Although this data breach was limited in scope, and as such, did not have a material adverse effect on our operations or financial reporting capabilities, future breaches of this nature as well as any other security breach or other misuse of our data could lead to improper disclosure of Company information, including information obtained from our clients, candidates and employees, that could harm our reputation, lead to legal exposure, divert management attention and resources, increase our operating expenses due to the employment of consultants and third party experts and the purchase of additional infrastructure, and/or subject us to liability, resulting in increased costs and loss of revenue. More specifically, since fiscal 2013, we have incurred such costs to bolster our security against future attacks; such efforts and expenditures, however, cannot provide absolute assurance that future data breaches will not occur. We depend on our overall reputation and brand name recognition to secure new engagements. Perceptions that we do not adequately protect the privacy of information could inhibit attaining new engagements and qualified consultants, and could potentially damage currently existing client relationships.

***Limited protection of our intellectual property could harm our business, and we face the risk that our services or products may infringe upon the intellectual property rights of others.***

We cannot guarantee that trade secret, trademark and copyright law protections are adequate to deter misappropriation of our intellectual property (which has become an increasingly important part of our business). Existing laws of some countries in which we provide services or products may offer only limited protection of our intellectual property rights. Redressing infringements may consume significant management time and financial resources. Also, we may be unable to detect the unauthorized use of our intellectual property and take the necessary steps to enforce our rights, which may have a material adverse impact on our business, financial condition or results of operations. We cannot be sure that our services and products, or the products of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us or our clients. These claims may harm our reputation, result in financial liability and prevent us from offering some services or products.

***We have invested in specialized technology and other intellectual property for which we may fail to fully recover our investment or which may become obsolete.***

We have invested in developing specialized technology and intellectual property, including proprietary systems, processes and methodologies, such as Searcher Express and KF Insight, that we believe provide us a competitive advantage in serving our current clients and winning new engagements. Many of our service and product offerings rely on specialized technology or intellectual property that is subject to rapid change, and to the extent that this technology and intellectual property is rendered obsolete and of no further use to us or our clients, our ability to continue offering these services, and grow our revenues, could be adversely affected. There is no assurance that we will be able to develop new, innovative or improved technology or intellectual property or that our technology and intellectual property will effectively compete with the intellectual property developed by our competitors. If we are unable to develop new technology and intellectual property or if our competitors develop better technology or intellectual property, our revenues and results of operations could be adversely affected.

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

We operate in 37 countries and during the year ended April 30, 2014, generated 47% of our fee revenue from operations outside of the United States. We are exposed to the risk of changes in social, political, legal and economic conditions inherent in international operations. Examples of risks inherent in transacting business worldwide that we are exposed to include:

- changes in and compliance with applicable laws and regulatory requirements, including U.S. laws affecting the activities of U.S. companies abroad, including the Foreign Corrupt Practices Act of 1977

and sanctions programs administered by the U.S. Department of the Treasury Office of Foreign Assets Control, and similar foreign laws such as the U.K. Bribery Act, as well the fact that many countries have legal systems, local laws and trade practices that are unsettled and evolving, and/or commercial laws that are vague and/or inconsistently applied;

- difficulties in staffing and managing global operations, which could impact our ability to maintain an effective system of internal control;
- difficulties in building and maintaining a competitive presence in existing and new markets;
- social, economic and political instability;
- differences in cultures and business practices;
- fluctuations in currency exchange rates;
- statutory equity requirements;
- differences in accounting and reporting requirements;
- repatriation controls;
- differences in labor and market conditions;
- potential adverse tax consequences; and
- multiple regulations concerning pay rates, benefits, vacation, statutory holiday pay, workers' compensation, union membership, termination pay, the termination of employment, and other employment laws.

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

***Foreign currency exchange rate risks may adversely affect our results of operations.***

A material portion of our revenue and expenses are generated by our operations in foreign countries, and we expect that our foreign operations will account for a material portion of our revenue and expenses in the future. Most of our international expenses and revenue are denominated in foreign currencies. As a result, our financial results could be affected by factors, such as changes in foreign currency exchange rates or weak economic conditions in foreign markets in which we have operations. Fluctuations in the value of those currencies in relation to the United States dollar have caused and will continue to cause dollar-translated amounts to vary from one period to another. Given the volatility of exchange rates, we may not be able to manage effectively our currency translation or transaction risks, which may adversely affect our financial condition and results of operations.

***We may be limited in our ability to recruit employees from our clients and we could lose those opportunities to our competition, which could harm our business.***

Either by agreement with clients, or for client relations or marketing purposes, we sometimes refrain from, for a specified period of time, recruiting candidates from a client when conducting searches on behalf of other clients. These off-limit agreements can generally remain in effect for up to two years following completion of an assignment. The duration and scope of the off-limit agreement, including whether it covers all operations of the client and its affiliates or only certain divisions of a client, generally are subject to negotiation or internal policies and may depend on factors such as the scope, size and complexity of the client's business, the length of the client relationship and the frequency with which we have been engaged to perform executive searches for the client. If a prospective client believes that we are overly restricted by these off-limit agreements from recruiting

employees of our existing clients, these prospective clients may not engage us to perform their executive searches. Therefore, our inability to recruit candidates from these clients may make it difficult for us to obtain search assignments from, or to fulfill search assignments for, other companies in that client's industry. We cannot ensure that off-limit agreements will not impede our growth or our ability to attract and serve new clients, or otherwise harm our business.

***Consolidation in the industries that we serve could harm our business.***

Companies in the industries that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our clients merge or consolidate and combine their operations, we may experience a decrease in the amount of services we perform for these clients. If one of our clients merges or consolidates with a company that relies on another provider for its services, we may lose work from that client or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these possible results of industry consolidation could harm our business, results of operations and financial condition.

***We have provisions that make an acquisition of us more difficult and expensive.***

Anti-takeover provisions in our Certificate of Incorporation, our Bylaws and under Delaware law make it more difficult and expensive for us to be acquired in a transaction that is not approved by our Board of Directors. Some of the provisions in our Certificate of Incorporation and Bylaws include:

- limitation on stockholder actions;
- advance notification requirements for director nominations and actions to be taken at stockholder meetings; and
- the ability to issue one or more series of preferred stock by action of our Board of Directors.

These provisions could discourage an acquisition attempt or other transaction in which stockholders could receive a premium over the current market price for the common stock.

***Unfavorable tax laws, tax law changes and tax authority rulings may adversely affect results.***

We are subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates or changes in tax laws. The amount of income taxes and other taxes are subject to ongoing audits by United States federal, state and local tax authorities and by non-United States authorities. If these audits result in assessments different from estimated amounts recorded, future financial results may include unfavorable tax adjustments.

***We have deferred tax assets that we may not be able to use under certain circumstances.***

If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowances against our deferred tax assets. This would result in an increase in our effective tax rate, and an adverse effect on our future operating results. In addition, changes in statutory tax rates may also change our deferred tax assets or liability balances, with either a favorable or unfavorable impact on our effective tax rate. Our deferred tax assets may also be impacted by new legislation or regulation.

***An impairment in the carrying value of goodwill and other intangible assets could negatively impact our consolidated results of operations and net worth.***

Goodwill is initially recorded as the excess of amounts paid over the fair value of net assets acquired. While goodwill is not amortized, it is reviewed for impairment at least annually or more frequently if impairment indicators are present. In assessing the carrying value of goodwill, we make qualitative and quantitative assumptions and estimates about revenues, operating margins, growth rates and discount rates based on our business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Goodwill valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit and a market approach. We could be required to evaluate the carrying value of goodwill prior to the annual assessment, if we experience unexpected significant declines in operating results or sustained market capitalization declines. These types of events and the resulting analyses could result in goodwill impairment charges in the future. Impairment charges could substantially affect our results of operations and net worth in the periods of such charges.

***We may not be able to align our cost structure with our revenue level which in turn may require additional financing in the future that may not be available at all or may be available only on unfavorable terms.***

We continuously evaluate our cost base in relation to projected near to mid-term demand for our services in an effort to align our cost structure with the current realities of our markets. If actual or projected fee revenue are negatively impacted by weakening customer demand, we may find it necessary to take cost cutting measures so that we can minimize the impact on our profitability. There is, however, no guarantee that if we do take such measures that such measures will properly align our cost structure to our revenue level. Any failure to maintain a balance between our cost structure and our revenue could adversely affect our business, financial condition, and results of operations and lead to negative cash flows, which in turn might require us to obtain additional financing to meet our capital needs. If we are unable to secure additional financing on favorable terms, or at all, our ability to fund our operations could be impaired, which could have a material adverse effect on our results of operations.

***We invest in marketable securities classified as trading and available for sale and if the market value of these securities declines materially, they could have an adverse effect on our financial position and results of operations.***

Marketable securities consist of mutual funds and investments in corporate bonds, commercial paper and U.S. Treasury and agency securities. The primary objectives of the mutual funds are to meet the obligations under certain of our deferred compensation plans, while the other securities are available for general corporate purposes. If the financial markets in which these securities trade were to materially decline in value, the unrealized losses and potential realized losses could negatively impact the Company's financial position and results of operations.

***Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.***

Should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breach, power loss, telecommunications failure or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, we could experience near-term operational challenges with regard to particular areas of our operations. In particular, our ability to recover from any disaster or other business continuity problem will depend on our ability to protect our technology infrastructure against damage from business continuity events that could have a

significant disruptive effect on our operations. We could potentially lose client data or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster. We will continue to regularly assess and take steps to improve upon our business continuity plans. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, damaged client relationships or legal liability.

***Changes in our accounting estimates and assumptions could negatively affect our financial position and results of operations.***

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”). These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions including those relating to revenue recognition, restructuring, deferred compensation, goodwill and other intangible assets, contingencies, annual performance related bonuses, allowance for doubtful accounts, marketable securities, share-based payments and deferred income taxes. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Actual results could differ from these estimates, and changes in accounting standards could have an adverse impact on our future financial position and results of operations.

**Item 1B. *Unresolved Staff Comments***

Not applicable.

**Item 2. *Properties***

Our corporate office is located in Los Angeles, California. We lease all 84 of our Executive Recruitment, Leadership & Talent Consulting, and Futurestep offices located in North America, EMEA, Asia Pacific and South America. As of April 30, 2014, we leased an aggregate of approximately 853,127 square feet of office space. The leases generally are for terms of one to 12 years and contain customary terms and conditions. We believe that our facilities are adequate for our current needs and we do not anticipate any difficulty replacing such facilities or locating additional facilities to accommodate any future growth.

**Item 3. *Legal Proceedings***

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

**Item 4. *Mine Safety Disclosures***

Not applicable.



## Executive Officers of the Registrant

Name	Age	Position
Gary D. Burnison	53	President and Chief Executive Officer
Robert P. Rozek	53	Executive Vice President and Chief Financial Officer
RJ Heckman	46	President of Leadership & Talent Consulting
Byrne Mulrooney	53	Chief Executive Officer, Futurestep

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

*Gary D. Burnison* has been President and Chief Executive Officer since July 2007. He was Executive Vice President and Chief Financial Officer from March 2002 until June 30, 2007 and Chief Operating Officer from November 2003 until June 30, 2007. Prior to joining Korn Ferry, Mr. Burnison was Principal and Chief Financial Officer of Guidance Solutions, a privately held consulting firm, from 1999 to 2001. Prior to that, he served as an executive officer and a member of the board of directors of Jefferies and Company, an investment bank and brokerage firm, from 1995 to 1999. Earlier, Mr. Burnison was a partner at KPMG Peat Marwick.

*Robert P. Rozek* joined the Company in February 2012 as our Executive Vice President and Chief Financial Officer. Prior to joining Korn Ferry, he served as Executive Vice President and Chief Financial Officer of Cushman & Wakefield, Inc., a privately held commercial real estate services firm, from June 2008 to February 2012. Prior to joining Cushman & Wakefield, Inc., Mr. Rozek served as Senior Vice President and Chief Financial Officer of Las Vegas Sands Corp, a leading global developer of destination properties (integrated resorts) that feature premium accommodations, world-class gaming and entertainment, convention and exhibition facilities and many other amenities, from 2006 to 2008. Prior to that, Mr. Rozek held senior leadership positions at Eastman Kodak, and spent five years as a partner with PricewaterhouseCoopers LLP.

*RJ Heckman* was appointed President of Leadership & Talent Consulting in April 2013. He is responsible for driving the global growth of our Leadership & Talent Consulting services. From 2008 until he joined the Company he served as president and Chief Executive Officer of PDI. During that time, he led the acquisition and integration of Ninth House and positioned PDI to become the premier global leadership solutions organization. Prior to this role, he held key leadership positions at Honeywell and AT&T. Mr. Heckman has a Ph.D. in industrial and organizational psychology from the University of Tulsa.

*Byrne Mulrooney* joined the Company in April 2010 as Chief Executive Officer of Futurestep. Prior to joining Korn Ferry, he was President and Chief Operating Officer of Flynn Transportation Services, a third party logistics company, from 2007 to 2010. Prior to that, he led Spherion's workforce solutions business in North America, which provides workforce solutions in professional services and general staffing, including recruitment process outsourcing and managed services, from 2003 to 2007. Mr. Mulrooney held executive positions for almost 20 years at EDS and IBM in client services, sales, marketing and operations. Mr. Mulrooney is a graduate of Villanova University in Pennsylvania. He holds a master's degree in management from Northwestern University's J.L. Kellogg Graduate School of Management.

## PART II.

### Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

#### Common Stock

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

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended April 30, 2014</b>		
First Quarter .....	\$20.66	\$15.73
Second Quarter .....	\$24.05	\$17.48
Third Quarter .....	\$26.58	\$22.21
Fourth Quarter .....	\$30.75	\$21.89
<b>Fiscal Year Ended April 30, 2013</b>		
First Quarter .....	\$16.54	\$12.10
Second Quarter .....	\$15.94	\$12.73
Third Quarter .....	\$17.22	\$12.83
Fourth Quarter .....	\$19.38	\$15.15

On June 23, 2014, the last reported sales price on the New York Stock Exchange for the Company's common stock, was \$28.23 per share and there were approximately 12,257 beneficial shareholders of the Company's common stock.

#### Performance Graph

We have presented below a graph comparing the cumulative total stockholder return on the Company's shares with the cumulative total stockholder return on (1) the Standard & Poor's 500 Stock Index and (2) a company-established peer group. Cumulative total return for each of the periods shown in the performance graph is measured assuming an initial investment of \$100 on April 30, 2009 and the reinvestment of any dividends paid by any company in the peer group on the date the dividends were declared.

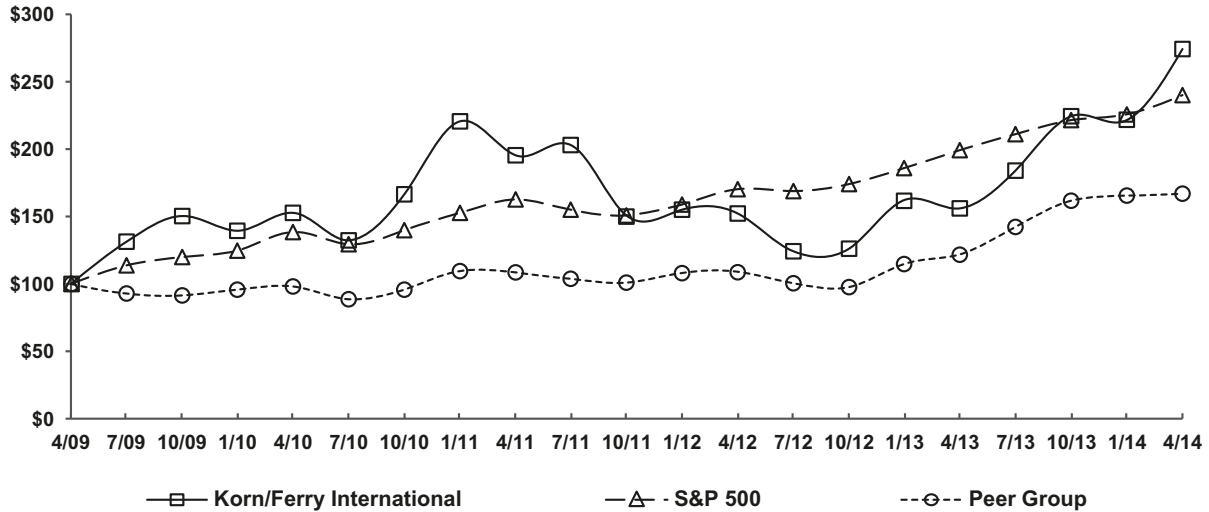
In fiscal 2011, we established a new peer group, which the Company continues to use today, comprised of a broad number of publicly traded companies, which are principally or in significant part involved in either professional staffing or consulting. The peer group is comprised of the following 15 companies: CBIZ, Inc. (CBZ), FTI Consulting, Inc. (FCN), Heidrick & Struggles International, Inc. (HSII), Huron Consulting Group Inc. (HURN), ICF International, Inc. (ICFI), Insperty, Inc. (NSP), Kelly Services, Inc. (KELYA), Kforce Inc. (KFRC), Navigant Consulting, Inc. (NCI), Resources Connection, Inc. (RECN), Robert Half International Inc. (RHI), The Corporate Executive Board Company (CEB), The Dun & Bradstreet Corporation (DNB), Towers Watson & Co. (TW) and TrueBlue, Inc. (TBI). We believe this group of professional services firms, is reflective of similar sized companies in terms of our market capitalization, revenue or profitability, and therefore provides a more meaningful comparison of stock performance. The returns of each company have been weighted according to their respective stock market capitalization at the beginning of each measurement period for purposes of arriving at a peer group average.

The stock price performance depicted in this graph is not necessarily indicative of future price performance. This graph will not be deemed to be incorporated by reference by any general statement incorporating this Form 10-K into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except

to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed soliciting material or deemed filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Korn/Ferry International, the S&P 500 Index, and a Peer Group



\* \$100 invested on 4/30/09 in stock or index-including reinvestment of dividends. Fiscal year ending April 30, 2014.

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**Dividends**

We have not paid any cash dividends on our common stock since April 30, 1996, and we currently have no plans to pay any cash dividends on our common stock. Our senior unsecured revolving credit agreement permits us to pay up to \$50.0 million in dividends in any fiscal year (subject to the satisfaction of certain conditions), which amount is further limited by any shares repurchased and any consideration paid with respect to acquisitions during such fiscal year.

**Stock Repurchase Program**

The Board of Directors has authorized the Company to repurchase up to \$50.0 million of the Company’s outstanding shares of common stock pursuant to an issuer repurchase program. Since this program was approved on November 2, 2007 through April 30, 2014, we have repurchased approximately \$25.6 million of the Company’s common stock under this program. Our future dividend policy as well as any decision to execute on our currently outstanding issuer repurchase program will depend on our earnings, capital requirements, financial condition and other factors considered relevant by our Board of Directors. Our senior unsecured revolving credit agreement requires us to maintain \$50.0 million in unrestricted cash and/or marketable securities (excluding any marketable securities that are held in trust for the settlement of the Company’s obligation under certain deferred compensation plans) as a condition to consummating permitted acquisitions, paying dividends to our shareholders and share repurchases of our common.

## Issuer Purchases of Equity Securities

The following table summarizes common stock repurchased by us during the fourth quarter of fiscal 2014:

	Shares Purchased (1)	Average Price Paid Per Share	Shares Purchased as Part of Publicly- Announced Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs (2)
February 1, 2014 — February 28, 2014 . . . . .	7,279	\$23.51	—	\$24.4 million
March 1, 2014 — March 31, 2014 . . . . .	—	\$ —	—	\$24.4 million
April 1, 2014 — April 30, 2014 . . . . .	1,806	\$28.59	—	\$24.4 million
Total . . . . .	<u>9,085</u>	<u>\$24.52</u>	<u>—</u>	<u>\$24.4 million</u>

- (1) Represents withholding of a portion of restricted shares to cover taxes upon vesting of restricted shares.
- (2) On November 2, 2007, the Board of Directors approved the repurchase of up to \$50 million of the Company's common stock in a common stock repurchase program. The shares can be repurchased in open market transactions or privately negotiated transactions at the Company's discretion.

## Item 6. Selected Financial Data

The following selected financial data are qualified by reference to, and should be read together with, our "Audited Consolidated Financial Statements and Notes to Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. The selected statement of income data set forth below for the fiscal years ended April 30, 2014, 2013 and 2012 and the selected balance sheet data as of April 30, 2014 and 2013 are derived from our consolidated financial statements, audited by Ernst & Young LLP, appearing elsewhere in this Form 10-K. The selected balance sheet data as of April 30, 2012, 2011 and 2010 and the selected statement of income data set forth below for the fiscal years ended April 30, 2011 and 2010 are derived from consolidated financial statements and notes thereto which are not included in this Form 10-K report and were audited by Ernst & Young LLP.

	Year Ended April 30,				
	2014	2013 (1)	2012	2011	2010
	(in thousands, except per share data and other operating data)				
<b>Selected Statement of Income Data:</b>					
Fee revenue . . . . .	\$ 960,301	\$ 812,831	\$ 790,505	\$744,249	\$572,380
Reimbursed out-of-pocket engagement expenses . . . . .	35,258	36,870	36,254	32,002	27,269
Total revenue . . . . .	995,559	849,701	826,759	776,251	599,649
Compensation and benefits . . . . .	646,889	555,346	534,186	507,405	413,340
General and administrative expenses . . . . .	152,040	142,771	138,872	116,494	115,280
Reimbursed expenses . . . . .	35,258	36,870	36,254	32,002	27,269
Cost of services . . . . .	39,910	28,977	19,635	19,764	14,316
Depreciation and amortization . . . . .	26,172	19,004	14,017	12,671	11,493
Restructuring charges, net (2) . . . . .	3,682	22,857	929	2,130	20,673
Total operating expenses . . . . .	903,951	805,825	743,893	690,466	602,371
Operating income (loss) . . . . .	91,608	43,876	82,866	85,785	(2,722)
Other income (loss), net . . . . .	9,769	6,309	(271)	6,454	10,066
Interest expense, net . . . . .	(2,363)	(2,365)	(1,791)	(2,535)	(2,622)
Equity in earnings of unconsolidated subsidiaries, net . . . . .	2,169	2,110	1,850	1,862	91
Provision (benefit) for income taxes . . . . .	28,492	16,637	28,351	32,692	(485)
Net income . . . . .	<u>\$ 72,691</u>	<u>\$ 33,293</u>	<u>\$ 54,303</u>	<u>\$ 58,874</u>	<u>\$ 5,298</u>
Basic earnings per share . . . . .	\$ 1.51	\$ 0.71	\$ 1.17	\$ 1.30	\$ 0.12
Diluted earnings per share . . . . .	\$ 1.48	\$ 0.70	\$ 1.15	\$ 1.27	\$ 0.12
Basic weighted average common shares outstanding . . . . .	48,162	47,224	46,397	45,205	44,413
Diluted weighted average common shares outstanding . . . . .	49,145	47,883	47,261	46,280	45,457

	Year Ended April 30,				
	2014	2013 (1)	2012	2011	2010
(in thousands, except per share data and other operating data)					
<b>Other Operating Data:</b>					
Fee revenue by business segment:					
Executive recruitment:					
North America	\$ 306,768	\$ 290,317	\$ 305,717	\$306,180	\$224,549
EMEA	147,917	128,807	141,409	137,398	122,194
Asia Pacific	84,816	73,221	82,230	81,951	59,858
South America	29,374	30,134	31,846	29,177	20,715
Total executive recruitment	568,875	522,479	561,202	554,706	427,316
Leadership & Talent Consulting	254,636	168,115	115,407	99,352	77,085
Futurestep	136,790	122,237	113,896	90,191	67,979
Total fee revenue	\$ 960,301	\$ 812,831	\$ 790,505	\$744,249	\$572,380
Number of offices (at period end)	84	87	76	76	76
Number of consultants (at period end)	646	607	522	562	547
Number of new engagements opened	10,050	9,624	10,409	10,683	8,793
Number of full-time employees:					
Executive recruitment	1,566	1,471	1,471	1,494	1,387
Leadership & Talent Consulting	794	886	291	280	277
Futurestep	958	835	826	628	487
Corporate	78	80	66	61	48
Total full-time employees	3,396	3,272	2,654	2,463	2,199
<b>Selected Balance Sheet Data as of April 30:</b>					
Cash and cash equivalents	\$ 333,717	\$ 224,066	\$ 282,005	\$246,856	\$219,233
Marketable securities (3)	134,559	141,916	135,734	122,231	77,219
Working capital	275,021	178,549	278,343	207,731	182,781
Total assets	1,233,666	1,115,229	1,014,689	971,680	827,098
Long-term obligations	191,197	182,210	163,489	159,477	137,673
Total stockholders' equity	755,536	664,468	629,476	578,337	491,342

- (1) Due to the acquisitions of PDI and Global Novations, which collectively accounted for \$45.6 million and \$162.4 million of fee revenue and total assets, respectively, during fiscal 2013, financial data trends for fiscal years 2014 and 2013 are not comparative to prior periods. See Note 12 — *Acquisitions*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K for discussion of fiscal 2013 acquisitions.
- (2) During fiscal 2014, the Company continued the implementation of the fiscal 2013 restructuring plan in order to integrate the prior year acquisitions by consolidating and eliminating certain redundant office space around the world and by continuing to consolidate certain overhead functions. As a result, we recorded \$0.8 million of severance and \$2.9 million relating to the consolidation of premises. During fiscal 2013, we implemented restructuring plans in order to rationalize our cost structure in response to anticipated revenue levels and to focus on the integration synergies associated with the current year acquisitions. As a result, we recorded \$22.8 million of restructuring charges with \$16.3 million of severance and \$6.5 million relating to the consolidation of premises. During fiscal 2012 and 2011, we increased our previously recorded restructuring charges by \$0.9 million and \$2.1 million, respectively, primarily related to the inability to sublease space, which was included in the original estimate. During fiscal 2010, our restructuring initiatives resulted in restructuring charges of \$25.8 million against operations, of which \$16.0 million and \$9.8 million related to severance costs and the consolidation of premises, respectively. These restructuring charges were partially offset by \$5.1 million of reductions from previous restructuring charges resulting in net restructuring costs of \$20.7 million during fiscal 2010.
- (3) As of April 30, 2014, 2013, 2012, 2011 and 2010, the Company's marketable securities included \$116.2 million, \$98.0 million, \$82.2 million, \$71.4 million and \$69.0 million, respectively, held in trust for settlement of the Company's obligations under certain of its deferred compensation plans. See Note 5 — *Marketable Securities* in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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

### **Forward-looking Statements**

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

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

### **Executive Summary**

Korn/Ferry International (referred to herein as the "Company," "Korn Ferry," or in the first person notations "we," "our," and "us") is a premier global provider of talent management solutions that helps clients design strategies to assist in building and attracting their talent. We are a premier provider of executive recruitment, leadership and talent consulting and talent acquisition solutions with the broadest global presence in the recruitment industry. Our services include Executive Recruitment, consulting and solutions services through Leadership & Talent Consulting ("LTC") and recruitment for non-executive professionals and recruitment process outsourcing ("RPO") through Futurestep. Approximately 74% of the executive recruitment searches we performed in fiscal 2014 were for board level, chief executive and other senior executive and general management positions. Our 5,175 clients in fiscal 2014 included many of the world's largest and most prestigious public and private companies, including approximately 59% of the FORTUNE 500, middle market and emerging growth companies, as well as government and nonprofit organizations. We have built strong client loyalty, with 80% of assignments performed during fiscal 2014 having been on behalf of clients for whom we had conducted assignments in the previous three fiscal years.

In an effort to maintain our long-term strategy of being the leading provider of talent management solutions, our strategic focus for fiscal 2015 centers upon enhancing the integration of our multi-service strategy. We plan to continue to address areas of increasing client demand including LTC and RPO. We further plan to explore new products and services, continue to pursue a disciplined acquisition strategy, enhance our technology and



processes and aggressively leverage our brand through thought leadership and intellectual capital projects as a means of delivering world-class service to our clients.

During fiscal 2014, 88% of our top 50 clients utilized at least two of our service lines. During fiscal 2013, we completed the acquisitions of Minneapolis-based PDI Ninth House (“PDI”), a leading, globally-recognized provider of leadership assessment and development solutions and Global Novations, LLC (“Global Novations”), a leading provider of diversity and inclusion and leadership development solutions, which are collectively referred to herein as the “prior year acquisitions” (see Note 12 — *Acquisitions*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K, for additional information regarding acquisitions completed during fiscal 2013). As a result, in fiscal 2013, we implemented a restructuring plan focused on realizing the planned synergies associated with the prior year acquisitions. We continued to implement this plan during the first half of fiscal 2014 and in connection with the plan, recorded restructuring charges of \$3.7 million during fiscal 2014, of which \$2.9 million was for facility costs in order to integrate PDI by consolidating and eliminating redundant office space around the world and severance costs of \$0.8 million to consolidate certain overhead functions.

The Company currently operates in three global business segments: Executive Recruitment, LTC and Futurestep. See Note 11 — *Business Segments*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K, for discussion of the Company’s global business segments. The Company evaluates performance and allocates resources based on the chief operating decision maker’s review of (1) fee revenue and (2) earnings before interest, taxes, depreciation and amortization (“EBITDA”), which is further adjusted to exclude restructuring charges (net of recoveries), and/or integration/acquisition and certain separation costs (“Adjusted EBITDA”). EBITDA and Adjusted EBITDA are non-GAAP financial measures. They have limitations as analytical tools, should not be viewed as substitutes for financial information determined in accordance with U.S. generally accepted accounting principles (“GAAP”), and should not be considered in isolation or as substitutes for analysis of the Company’s results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes the presentation of these non-GAAP financial measures provides meaningful supplemental information regarding Korn Ferry’s performance by excluding certain charges and other items that may not be indicative of Korn Ferry’s ongoing operating results. The use of these non-GAAP financial measures facilitates comparisons to Korn Ferry’s historical performance. Korn Ferry includes these non-GAAP financial measures because management believes they are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its evaluation of Korn Ferry’s ongoing operations and financial and operational decision-making. The accounting policies for the reportable segments are the same as those described in the summary of significant accounting policies in the accompanying consolidated financial statements, except that the above noted items are excluded from Adjusted EBITDA.

Fee revenue increased \$147.5 million, or 18% (9% increase in fee revenue when adjusting for the prior year acquisitions) in fiscal 2014 to \$960.3 million compared to \$812.8 million in fiscal 2013, with increases in fee revenue in LTC, Executive Recruitment and Futurestep. During fiscal 2014, we recorded operating income of \$91.6 million with Executive Recruitment, LTC and Futurestep segments contributing \$116.4 million, \$23.8 million, and \$13.3 million, respectively, offset by corporate expenses of \$61.9 million. Net income for fiscal 2014 and 2013 was \$72.7 million and \$33.3 million, respectively. Adjusted EBITDA during fiscal 2014 was \$138.3 million with Executive Recruitment, LTC and Futurestep segments contributing \$127.8 million, \$37.6 million and \$16.9 million, respectively, offset by corporate expenses of \$44.0 million. Adjusted EBITDA increased \$40.5 million in fiscal 2014 to \$138.3 million from adjusted EBITDA of \$97.8 million in fiscal 2013.

Our cash, cash equivalents and marketable securities increased \$102.3 million, or 28%, to \$468.3 million at April 30, 2014, compared to \$366.0 million at April 30, 2013, mainly due to cash provided by operations, partially offset by bonuses earned in fiscal 2013 and paid during the first quarter of fiscal 2014 and \$15.0 million in contingent consideration also paid during the first quarter of fiscal 2014 to the selling stockholders of PDI. As of April 30, 2014, we held marketable securities to settle obligations under our Executive Capital Accumulation

Plan (“ECAP”) with a fair value of \$116.2 million. Our vested and unvested obligations for which these assets were held in trust totaled \$117.6 million as of April 30, 2014. Our working capital increased by \$96.5 million to \$275.0 million in fiscal 2014. We believe that cash on hand and funds from operations will be sufficient to meet our anticipated working capital, capital expenditures and general corporate requirements in the next twelve months. We had no long-term debt or any outstanding borrowings under our credit facility at April 30, 2014 or 2013. As of April 30, 2013, under our previous senior secured credit agreement we were required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that were outstanding. There is no restricted cash requirement under our current senior unsecured revolving credit agreement and, as a result, the Company had no restricted cash balance as of April 30, 2014. As of April 30, 2014 and 2013, there was \$2.8 million and \$2.7 million, respectively of standby letters of credit issued under our long-term debt arrangements. We have a total of \$1.5 million and \$1.4 million of standby letters of credits with other financial institutions as of April 30, 2014 and 2013, respectively.

### **Critical Accounting Policies**

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. Preparation of our periodic filings requires us to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions and changes in the estimates are reported in current operations as new information is learned or upon the amounts becoming fixed and determinable. In preparing our consolidated financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in the notes to our consolidated financial statements. We consider the policies discussed below as critical to an understanding of our consolidated financial statements because their application places the most significant demands on management’s judgment and estimates. Specific risks for these critical accounting policies are described in the following paragraphs. Senior management has discussed the development, selection and key assumptions of the critical accounting estimates with the Audit Committee of the Board of Directors.

*Revenue Recognition.* Management is required to establish policies and procedures to ensure that revenue is recorded over the performance period for valid engagements and related costs are matched against such revenue. We provide professional services related to executive recruitment activities and recruitment for non-executive professionals on a retained basis, recruitment process outsourcing and leadership & talent consulting services. Fee revenue from executive recruitment activities and recruitment for non-executive professionals are generally one-third of the estimated first year cash compensation of the placed executive plus a percentage of the fee to cover indirect expenses. The Company generally recognizes revenue on a straight-line basis over a three month period, commencing upon client acceptance, as this is the period over which the recruitment services are performed. Fees earned in excess of the initial contract amount are recognized upon completion of the engagement, which reflect the difference between the final actual compensation of the placed executive and the estimate used for purposes of the previous billings. Since the initial fees are typically not contingent upon placement of a candidate, our assumptions primarily relate to establishing the period over which such service is performed. These assumptions determine the timing of revenue recognition and profitability for the reported period. If these assumptions do not accurately reflect the period over which revenue is earned, revenue and profit could differ. Any services that are provided on a contingent basis are recognized once the contingency is resolved. In addition to recruitment for non-executive professionals, Futurestep provides recruitment process outsourcing services and fee revenue is recognized as services are rendered. Fee revenue from LTC services is recognized as services are rendered for consulting engagements and other time based services, measured by total hours incurred to the total estimated hours at completion. It is possible that updated estimates for the consulting engagement may vary from initial estimates with such updates being recognized in the period of determination. Depending on the timing of billings and services rendered, the Company accrues revenue as appropriate. LTC revenue is also derived from the sale of solution services, which includes revenue from licenses and the sale of products. Revenue from licenses is recognized using a straight-line method over the term of the contract

(generally 12 months). Revenue from perpetual licenses is recognized when the license is sold. Products sold by the Company mainly consist of books and automated services covering a variety of topics including performance management, team effectiveness and coaching and development. The Company recognizes revenue for its products when the product has been sold. Furthermore, a provision for doubtful accounts on recognized revenue is established with a charge to general and administrative expenses based on historical loss experience, assessment of the collectability of specific accounts, as well as expectations of future collections based upon trends and the type of work for which services are rendered.

*Annual Performance Related Bonuses.* Each quarter, management records its best estimate of its annual performance related bonuses, which requires management to, among other things, project annual consultant (employees who originate business) productivity (as measured by engagement fees billed and collected by executive search consultants and revenue for LTC and Futurestep consultants), Company performance including profitability, competitive forces and future economic conditions impact on our results. At the end of each fiscal year, annual performance related bonuses take into account final individual consultant productivity, Company results including profitability, the achievement of strategic objectives and the results of individual performance appraisals, and the current economic landscape. Because annual performance-based bonuses are communicated and paid only after the Company reports its full fiscal year results, actual performance-based bonus payments may differ from the prior year's estimate, and any changes in the estimate are reported in current operations. Such changes in the bonus estimates historically have not been significant and are recorded in current operations in the period in which they are determined.

*Deferred Compensation.* Estimating deferred compensation requires assumptions regarding the timing and probability of payments of benefits to participants and the discount rate. Changes in these assumptions would significantly impact the liability and related cost on our consolidated balance sheet and statement of income, respectively. Management engages an independent actuary to periodically review these assumptions in order to confirm that they reflect the population and economics of our deferred compensation plans in all material respects and to assist us in estimating our deferred compensation liability and the related cost. The actuarial assumptions we use may differ from actual results due to changing market conditions or changes in the participant population. These differences could have a significant impact on our deferred compensation liability and the related cost.

*Carrying Values.* Valuations are required under GAAP to determine the carrying value of various assets. Our most significant assets for which management is required to prepare valuations are carrying value of receivables, goodwill, intangible assets, fair value of contingent consideration, and recoverability of deferred income taxes. Management must identify whether events have occurred that may impact the carrying value of these assets and make assumptions regarding future events, such as cash flows and profitability. Differences between the assumptions used to prepare these valuations and actual results could materially impact the carrying amount of these assets and our operating results.

Of the assets mentioned above, goodwill is the largest asset requiring a valuation. Fair value of goodwill for purposes of the goodwill impairment test is determined utilizing a discounted cash flow analysis based on forecast cash flows (including estimated underlying revenue and operating income growth rates) discounted using an estimated weighted-average cost of capital for market participants. A market approach, utilizing observable market data such as comparable companies in similar lines of business that are publicly traded or which are part of a public or private transaction (to the extent available), is used to corroborate the discounted cash flow analysis performed at each reporting unit. The Company also reconciles the results of these analyses to its market capitalization. If the carrying amount of a reporting unit exceeds its estimated fair value, goodwill is considered potentially impaired and further tests are performed to measure the amount of impairment loss, if any. We recorded no goodwill impairments in conjunction with our annual goodwill impairment assessment performed as of January 31, 2014. While historical performance and current expectations have resulted in fair values of goodwill in excess of carrying values, if our assumptions are not realized, it is possible that in the future an impairment charge may need to be recorded. However, it is not possible at this time to determine if an impairment charge would result or if such a charge would be material. Fair value determinations require

considerable judgment and are sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the annual goodwill impairment test will prove to be accurate predictions of the future. As of our testing date, the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recognized. There was also no indication of potential impairment during the fourth quarter of fiscal 2014 that would have required further testing.

Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of the reporting units may include such items as follows:

- A prolonged downturn in the business environment in which the reporting units operate;
- An economic climate that significantly differs from our future profitability assumptions in timing or degree; and
- Volatility in equity and debt markets.

## Results of Operations

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

	Year Ended April 30,		
	2014	2013	2012
Fee revenue	100.0%	100.0%	100.0%
Reimbursed out-of-pocket engagement expenses	3.7	4.5	4.6
Total revenue	103.7	104.5	104.6
Compensation and benefits	67.4	68.3	67.6
General and administrative expenses	15.8	17.6	17.5
Reimbursed expenses	3.7	4.5	4.6
Cost of services	4.2	3.6	2.5
Depreciation and amortization	2.7	2.3	1.8
Restructuring charges, net	0.4	2.8	0.1
Operating income	9.5	5.4	10.5
Net income	7.6%	4.1%	6.9%

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

	Year Ended April 30,					
	2014		2013		2012	
	Dollars	%	Dollars	%	Dollars	%
(dollars in thousands)						
<b>Fee revenue</b>						
<b>Executive Recruitment:</b>						
North America	\$306,768	31.9%	\$290,317	35.7%	\$305,717	38.7%
EMEA	147,917	15.4	128,807	15.9	141,409	17.9
Asia Pacific	84,816	8.8	73,221	9.0	82,230	10.4
South America	29,374	3.1	30,134	3.7	31,846	4.0
<b>Total Executive Recruitment</b>	<b>568,875</b>	<b>59.2</b>	<b>522,479</b>	<b>64.3</b>	<b>561,202</b>	<b>71.0</b>
<b>LTC</b>	<b>254,636</b>	<b>26.5</b>	<b>168,115</b>	<b>20.7</b>	<b>115,407</b>	<b>14.6</b>
<b>Futurestep</b>	<b>136,790</b>	<b>14.3</b>	<b>122,237</b>	<b>15.0</b>	<b>113,896</b>	<b>14.4</b>
<b>Total fee revenue</b>	<b>960,301</b>	<b>100.0%</b>	<b>812,831</b>	<b>100.0%</b>	<b>790,505</b>	<b>100.0%</b>
Reimbursed out-of-pocket engagement expense	35,258		36,870		36,254	
<b>Total revenue</b>	<b>\$995,559</b>		<b>\$849,701</b>		<b>\$826,759</b>	

	Year Ended April 30,					
	2014		2013		2012	
	Dollars	Margin(1)	Dollars	Margin(1)	Dollars	Margin(1)
	(dollars in thousands)					
<b>Operating income (loss)</b>						
<b>Executive Recruitment:</b>						
North America	\$ 70,256	22.9%	\$ 58,832	20.3%	\$ 75,580	24.7%
EMEA	23,168	15.7	9,173	7.1	13,288	9.4
Asia Pacific	17,274	20.4	6,973	9.5	11,859	14.4
South America	5,654	19.2	5,987	19.9	9,207	28.9
<b>Total Executive Recruitment</b>	<b>116,352</b>	<b>20.5</b>	<b>80,965</b>	<b>15.5</b>	<b>109,934</b>	<b>19.6</b>
<b>LTC</b>	<b>23,847</b>	<b>9.4</b>	<b>6,424</b>	<b>3.8</b>	<b>16,360</b>	<b>14.2</b>
<b>Futurestep</b>	<b>13,352</b>	<b>9.8</b>	<b>10,975</b>	<b>9.0</b>	<b>8,445</b>	<b>7.4</b>
<b>Corporate</b>	<b>(61,943)</b>		<b>(54,488)</b>		<b>(51,873)</b>	
<b>Total operating income (loss)</b>	<b>\$ 91,608</b>	<b>9.5%</b>	<b>\$ 43,876</b>	<b>5.4%</b>	<b>\$ 82,866</b>	<b>10.5%</b>

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

	Year Ended April 30, 2014								
	Executive Recruitment					LTC	Futurestep	Corporate	Consolidated
North America	EMEA	Asia Pacific	South America	Subtotal					
	(in thousands)								
Fee revenue	\$306,768	\$147,917	\$84,816	\$29,374	\$568,875	\$254,636	\$136,790	\$ —	\$960,301
Total revenue	\$321,473	\$152,525	\$87,606	\$29,586	\$591,190	\$262,962	\$141,407	\$ —	\$995,559
Net income									\$ 72,691
Other income, net									(9,769)
Interest expense, net									2,363
Equity in earnings of unconsolidated subsidiaries, net									(2,169)
Income tax provision									28,492
Operating income (loss)	\$ 70,256	\$ 23,168	\$17,274	\$ 5,654	\$116,352	\$ 23,847	\$ 13,352	\$(61,943)	\$ 91,608
Depreciation and amortization	3,579	2,727	1,383	323	8,012	12,491	1,797	3,872	26,172
Other income, net	631	632	203	303	1,769	106	583	7,311	9,769
Equity in earnings of unconsolidated subsidiaries, net	383	—	—	—	383	—	—	1,786	2,169
EBITDA	74,849	26,527	18,860	6,280	126,516	36,444	15,732	(48,974)	129,718
Restructuring charges, net	816	460	60	—	1,336	1,149	1,134	63	3,682
Separation costs	—	—	—	—	—	—	—	4,500	4,500
Integration costs	—	—	—	—	—	—	—	394	394
Adjusted EBITDA	\$ 75,665	\$ 26,987	\$18,920	\$ 6,280	\$127,852	\$ 37,593	\$ 16,866	\$(44,017)	\$138,294
Adjusted EBITDA margin	24.7%	18.2%	22.3%	21.4%	22.5%	14.8%	12.3%		14.4%

**Year Ended April 30, 2013**

	<b>Executive Recruitment</b>					<b>LTC</b>	<b>Futurestep</b>	<b>Corporate</b>	<b>Consolidated</b>
	<b>North America</b>	<b>EMEA</b>	<b>Asia Pacific</b>	<b>South America</b>	<b>Subtotal</b>				
	(in thousands)								
Fee revenue	\$290,317	\$128,807	\$73,221	\$30,134	\$522,479	\$168,115	\$122,237	\$ —	\$812,831
Total revenue	\$305,993	\$132,988	\$75,359	\$30,491	\$544,831	\$176,566	\$128,304	\$ —	\$849,701
Net income									\$ 33,293
Other income, net									(6,309)
Interest expense, net									2,365
Equity in earnings of unconsolidated subsidiaries, net									(2,110)
Income tax provision									16,637
Operating income (loss)	\$ 58,832	\$ 9,173	\$ 6,973	\$ 5,987	\$ 80,965	\$ 6,424	\$ 10,975	\$(54,488)	43,876
Depreciation and amortization	4,726	2,347	1,546	372	8,991	6,012	1,180	2,821	19,004
Other income (loss), net	466	95	200	32	793	(75)	51	5,540	6,309
Equity in earnings of unconsolidated subsidiaries, net	434	—	—	—	434	—	—	1,676	2,110
EBITDA	64,458	11,615	8,719	6,391	91,183	12,361	12,206	(44,451)	71,299
Restructuring charges, net	3,583	3,982	629	—	8,194	10,198	3,527	938	22,857
Transaction and integration costs	—	—	—	—	—	—	—	3,106	3,106
Separation costs	—	516	—	—	516	—	—	—	516
Adjusted EBITDA	\$ 68,041	\$ 16,113	\$ 9,348	\$ 6,391	\$ 99,893	\$ 22,559	\$ 15,733	\$(40,407)	\$ 97,778
Adjusted EBITDA margin	23.4%	12.5%	12.8%	21.2%	19.1%	13.4%	12.9%		12.0%

**Year Ended April 30, 2012**

	<b>Executive Recruitment</b>					<b>LTC</b>	<b>Futurestep</b>	<b>Corporate</b>	<b>Consolidated</b>
	<b>North America</b>	<b>EMEA</b>	<b>Asia Pacific</b>	<b>South America</b>	<b>Subtotal</b>				
	(in thousands)								
Fee revenue	\$305,717	\$141,409	\$82,230	\$31,846	\$561,202	\$115,407	\$113,896	\$ —	\$790,505
Total revenue	\$323,116	\$146,573	\$84,279	\$32,517	\$586,485	\$120,281	\$119,993	\$ —	\$826,759
Net income									\$ 54,303
Other loss, net									271
Interest expense, net									1,791
Equity in earnings of unconsolidated subsidiaries, net									(1,850)
Income tax provision									28,351
Operating income (loss)	\$ 75,580	\$ 13,288	\$11,859	\$ 9,207	\$109,934	\$ 16,360	\$ 8,445	\$(51,873)	82,866
Depreciation and amortization	4,624	1,881	1,268	367	8,140	2,613	1,070	2,194	14,017
Other income (loss), net	5	(149)	60	(61)	(145)	146	41	(313)	(271)
Equity in earnings of unconsolidated subsidiaries, net	159	—	—	—	159	—	—	1,691	1,850
EBITDA	80,368	15,020	13,187	9,513	118,088	19,119	9,556	(48,301)	98,462
Restructuring charges, net	(15)	897	—	(99)	783	—	146	—	929
Separation costs	—	—	—	—	—	—	920	999	1,919
Adjusted EBITDA	\$ 80,353	\$ 15,917	\$13,187	\$ 9,414	\$118,871	\$ 19,119	\$ 10,622	\$(47,302)	\$101,310
Adjusted EBITDA margin	26.3%	11.3%	16.0%	29.6%	21.2%	16.6%	9.3%		12.8%



## **Fiscal 2014 Compared to Fiscal 2013**

### ***Fee Revenue***

*Fee Revenue.* Fee revenue increased \$147.5 million, or 18%, to \$960.3 million in fiscal 2014 compared to \$812.8 million in fiscal 2013. Adjusting for the prior year acquisitions, fee revenue increased \$75.6 million as compared to the year-ago period. This increase in fee revenue was primarily attributable to an increase in fee revenue in Executive Recruitment, and to a lesser extent, an increase in Leadership & Talent Consulting and Futurestep fee revenue. Exchange rates unfavorably impacted fee revenue by \$7.5 million or 1% in fiscal 2014.

*Executive Recruitment.* Executive Recruitment reported fee revenue of \$568.9 million, an increase of \$46.4 million, or 9%, in fiscal 2014 compared to \$522.5 million in fiscal 2013. As detailed below, Executive Recruitment fee revenue increased in North America, EMEA and Asia Pacific offset by a decrease in fee revenue in South America in fiscal 2014 compared to fiscal 2013. The increase in Executive Recruitment fee revenue was mainly due to an 8% increase in the number of Executive Recruitment engagements billed in fiscal 2014 compared to fiscal 2013 and a 1% increase in the weighted-average fees billed per engagement during the same period. Exchange rates unfavorably impacted fee revenue by \$5.3 million or 1% in fiscal 2014.

North America reported fee revenue of \$306.8 million, an increase of \$16.5 million, or 6%, in fiscal 2014 compared to \$290.3 million in fiscal 2013. North America's increase in fee revenue was primarily due to a 3% increase in the number of engagements billed and a 2% increase in the weighted-average fees billed per engagement during fiscal 2014 compared to fiscal 2013. The overall increase in fee revenue was primarily driven by increases in fee revenue in the life sciences/healthcare, financial services, technology and education/non-profit sectors, partially offset by a decline in the industrial sector. Exchange rates unfavorably impacted fee revenue by \$1.7 million or 1% in fiscal 2014.

EMEA reported fee revenue of \$147.9 million, an increase of \$19.1 million, or 15%, in fiscal 2014 compared to \$128.8 million in fiscal 2013. EMEA's increase in fee revenue was primarily driven by an 11% increase in the number of engagements billed and a 3% increase in the weighted-average fees billed per engagement in fiscal 2014 compared to fiscal 2013. The increase in performance in the United Kingdom, France, Netherlands, Belgium and Germany were the primary contributors to the increase in fee revenue in fiscal 2014 compared to fiscal 2013. In terms of business sectors, industrial, financial services, life sciences/healthcare, consumer goods and technology experienced the largest increases in fee revenue in fiscal 2014 compared to the prior year. Exchange rates favorably impacted fee revenue by \$3.8 million or 3% in fiscal 2014.

Asia Pacific reported fee revenue of \$84.8 million, an increase of \$11.6 million, or 16%, in fiscal 2014 compared to \$73.2 million in fiscal 2013. The increase in fee revenue was mainly due to a 15% increase in the number of engagements billed and a 1% increase in weighted-average fees billed per engagement in fiscal 2014 compared to fiscal 2013. The increase in performance in Australia, Singapore and China were the primary contributors to the increase in fee revenue. The largest increases in fee revenue were experienced in the life sciences/healthcare, financial services, industrial and consumer goods sectors in fiscal 2014 compared to the prior year, partially offset by a decrease in the technology sector. Exchange rates unfavorably impacted fee revenue by \$4.3 million or 6% in fiscal 2014.

South America reported fee revenue of \$29.4 million, a decrease of \$0.8 million, or 3%, in fiscal 2014 compared to \$30.2 million in fiscal 2013. The decrease in fee revenue was mainly due to a 7% decrease (a 2% increase on a constant currency basis) in the weighted-average fees billed per engagement, offset by a 5% increase in the number of engagements billed in fiscal 2014 compared to fiscal 2013. The decrease in performance in Peru, Colombia and Chile were the primary contributors to the decrease in fee revenue, offset by an increase in fee revenue in Venezuela and Brazil. In terms of business sectors, industrial and education/non-profit sectors were the main sectors contributing to the decrease in fee revenue in fiscal 2014 compared to the prior year, partially offset by an increase in fee revenue in the life sciences/healthcare and consumer goods sectors during the same period. Exchange rates unfavorably impacted fee revenue for South America by \$3.1 million or 10% in fiscal 2014.

*Leadership & Talent Consulting.* Leadership & Talent Consulting reported fee revenue of \$254.6 million, an increase of \$86.5 million, or 51%, in fiscal 2014 compared to \$168.1 million in fiscal 2013. Adjusting for the two prior year acquisitions, fee revenue increased \$14.6 million, or 9%, as compared to the prior year. Fee revenue increased due to an increase in consulting fee revenue of \$11.2 million, or 8%, in fiscal 2014 compared to fiscal 2013, and an increase in product revenue of \$3.4 million during the same period. Exchange rates unfavorably impacted fee revenue by \$0.8 million in fiscal 2014.

*Futurestep.* Futurestep reported fee revenue of \$136.8 million, an increase of \$14.6 million, or 12%, in fiscal 2014 compared to \$122.2 million in fiscal 2013. Improvement in Futurestep fee revenue was primarily driven by increases in recruitment process outsourcing and non-executive and other professional recruitment. The increase in Futurestep's fee revenue was due to a 6% increase in the weighted-average fees billed per engagement and a 6% increase in the number of engagements billed in fiscal 2014 compared to the prior year. Exchange rates unfavorably impacted fee revenue by \$1.4 million or 1% in fiscal 2014.

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

Compensation and benefits expense increased \$91.6 million, or 16%, to \$646.9 million in fiscal 2014 from \$555.3 million in fiscal 2013. Adjusting for the prior year acquisitions, compensation and benefits increased \$50.2 million as compared to fiscal 2013. Contributing to the increase in compensation and benefits expense was an increase in performance related bonus expense of \$29.9 million due to the mix in pre-bonus earnings before restructuring charges by operating segment and an increase in fee revenue for fiscal 2014 compared to the prior year. In addition, there was an increase of \$15.0 million in salaries and related payroll taxes, \$5.4 million increase in deferred compensation (\$3.2 million was related to amortization of amounts contributed by the Company and \$2.2 million to the increase in fair value of the underlying investments that the contributions are allocated to) and \$2.3 million in separation costs, offset by a decrease in employee insurance costs of \$3.2 million and a change in the cash surrender value of the company owned life insurance that decreased compensation and benefits expense by \$1.7 million more in fiscal 2014 compared to the prior year. The increase in salaries and related payroll taxes was due to a 12% increase in the average headcount for fiscal 2014 compared to fiscal 2013. Exchange rates favorably impacted compensation and benefits expenses by \$5.2 million or 1% during fiscal 2014.

The changes in the fair value of vested amounts owed under certain deferred compensation plans increased compensation and benefits expense by \$7.8 million in fiscal 2014 compared to \$5.6 million in fiscal 2013. Offsetting these increases in compensation and benefits expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation plan liabilities) of \$9.5 million and \$7.6 million in fiscal 2014 and 2013, respectively, recorded in other income (loss), net on the consolidated statements of income.

Executive Recruitment compensation and benefits expense increased \$20.6 million, or 6%, to \$374.7 million in fiscal 2014 compared to \$354.1 million in fiscal 2013. This increase was primarily due to an increase of \$20.4 million in performance related bonus expense due to the increase in pre-bonus earnings before restructuring. The rest of the increase was due to an increase in salaries and related payroll taxes of \$2.2 million, an increase in the amortization of certain deferred of \$1.5 million and a \$1.2 million increase in the fair value of vested amounts owed under certain deferred compensation plans, offset by a decrease in employee insurance costs of \$2.7 million and a decrease in separation costs of \$1.7 million. The increase in salaries and related payroll taxes was due to an increase in the average headcount for fiscal 2014 compared to fiscal 2013. Executive Recruitment compensation and benefits expense decreased as a percentage of fee revenue to 66% in fiscal 2014 from 68% in fiscal 2013.

Leadership & Talent Consulting compensation and benefits expense increased \$53.4 million, or 56%, to \$149.2 million in fiscal 2014 from \$95.8 million in fiscal 2013. Adjusting for the prior year acquisitions, compensation and benefits increased \$12.0 million as compared to fiscal 2013. The change was driven by

increases in both performance related bonus expense of \$5.6 million and \$5.0 million in salaries and related payroll taxes, both due to a 43% increase in the average headcount (excluding prior year acquisitions) during fiscal 2014 compared to fiscal 2013. Leadership & Talent Consulting compensation and benefits expense as a percentage of fee revenue was 59% in fiscal 2014 compared to 57% in fiscal 2013.

Futurestep compensation and benefits expense increased \$11.0 million, or 13%, to \$93.8 million in fiscal 2014 from \$82.8 million in fiscal 2013. The change was driven by increases in both salaries and related payroll taxes and temporary contractors of \$4.9 million and \$1.9 million, respectively. The increase in salaries and related payroll taxes was due to a 8% increase in the average headcount and the increase in the use of temporary contractors was primarily associated with an increase in staffing to accommodate a number of larger RPO contracts won by the Company in fiscal 2014 and for which delivery began in the last two quarters of fiscal 2014 and will continue in subsequent periods. Also contributing to an increase in compensation and benefits expense was a \$1.5 million increase in performance related bonus expense due to the increase in pre-bonus earnings before restructuring and an increase in the fair value of vested amounts owed under certain deferred compensation plans of \$0.5 million. Futurestep compensation and benefits expense as a percentage of fee revenue was 69% in fiscal 2014 compared to 68% in fiscal 2013.

Corporate compensation and benefits expense increased \$6.6 million, or 29%, to \$29.2 million in fiscal 2014 from \$22.6 million in fiscal 2013 mainly due to an increase of \$4.2 million in separation charges and \$2.4 million increase in performance related bonus expense. The increases in performance related bonus expense was due to the increase in the Company's overall profitability. Also contributing to an increase in compensation and benefits expense was an increase in the fair value of vested amounts owed under certain deferred compensation plans of \$0.5 million, offset by the change in the cash surrender value ("CSV") of company owned life insurance ("COLI"). The change in CSV of COLI reduced compensation and benefits expense by \$8.2 million and \$6.5 million in fiscal 2014 and 2013, respectively. The larger increase in CSV of COLI in fiscal 2014 was due to a larger increase in the underlying investments due to market changes. COLI is held to fund certain deferred compensation retirement plans.

### ***General and Administrative Expenses***

General and administrative expenses increased \$9.2 million, or 6%, to \$152.0 million in fiscal 2014 compared to \$142.8 million in fiscal 2013. Adjusting for the prior year acquisitions, general and administrative expenses decreased by \$1.1 million as compared to fiscal 2013. The decrease in general and administrative expenses was due to a favorable foreign exchange rate that resulted in a foreign exchange gain of \$1.4 million in fiscal 2014 compared to foreign exchange loss of \$0.8 million during fiscal 2013 and a decrease in premise and office expenses of \$1.1 million due to savings obtained from the restructuring associated with the consolidation of premises in prior periods. Offsetting the decrease in general and administrative expenses was an increase in travel and business development related expenses and bad debt expense of \$1.7 million and \$0.6 million, respectively. General and administrative expenses as a percentage of fee revenue was 16% in fiscal 2014 compared to 18% in fiscal 2013. Exchange rates favorably impacted general and administrative expenses by \$1.6 million or 1% during fiscal 2014.

Executive Recruitment general and administrative expenses decreased \$2.1 million, or 3%, to \$67.8 million in fiscal 2014 from \$69.9 million in fiscal 2013. The decrease in general and administrative expenses was driven by favorable foreign exchange rates, resulting in a gain of \$1.8 million in fiscal 2014 compared to a foreign exchange loss of \$0.3 million in fiscal 2013, a decrease in premise and office expenses and legal and other professional services of \$1.6 million and \$0.7 million, respectively, offset by an increase in travel and business development related expenses of \$1.4 million and an increase in bad debt expense of \$0.8 million. The decrease in premise and office expenses was due to Leadership & Talent Consulting occupying more office space leased by Executive Recruitment due to the implementation of the restructuring plans in fiscal 2013. Executive Recruitment general and administrative expenses as a percentage of fee revenue was 12% in fiscal 2014 compared to 13% in fiscal 2013.

Leadership & Talent Consulting general and administrative expenses increased \$10.0 million, or 39%, to \$35.8 million in fiscal 2014 from \$25.8 million in fiscal 2013. Adjusting for the prior year acquisitions, general and administrative expenses decreased \$0.3 million as compared to the prior year. Contributing to the decrease in general and administrative expenses was a decrease in premise and office expenses of \$1.0 million due to sharing more office space with Executive Recruitment and favorable foreign exchange rates, resulting in a decrease in the foreign exchange loss from \$0.6 million in fiscal 2013 to \$0.1 million in fiscal 2014, offset by an increase of \$0.5 million in business development expenses and an increase in legal and other professional services expenses of \$0.5 million. The increase in business development expenses was due to marketing events that LTC participated in order to support the business. Leadership & Talent Consulting general and administrative expenses as a percentage of fee revenue was 14% in fiscal 2014 compared to 15% in fiscal 2013.

Futurestep general and administrative expenses increased \$0.6 million, or 3%, to \$19.6 million in fiscal 2014 compared to \$19.0 million in fiscal 2013. The increase in general and administrative expense was due to an increase in premise and office expense of \$0.5 million and an increase in legal and other professional services expenses of \$0.4 million, offset by a decrease in business development expenses of \$0.2 million in fiscal 2014 compared to the prior year. Futurestep general and administrative expenses as a percentage of fee revenue was 14% in fiscal 2014 compared to 16% in fiscal 2013.

Corporate general and administrative expenses increased \$0.7 million, or 2%, to \$28.8 million in fiscal 2014 compared to \$28.1 million in fiscal 2013. The increase in general and administrative expenses was driven by an increase of \$2.7 million in legal and other professional services expenses and an increase of \$1.1 million in premise and office expenses, offset by a decrease in integration/acquisition costs as a result of the PDI acquisition of \$2.7 million and a decrease in travel expenses of \$0.4 million in fiscal 2014 compared to fiscal 2013.

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

Cost of services expense consist primarily of non-billable contractor and product costs related to the delivery of various services and products. Cost of services expense increased \$10.9 million, or 38%, to \$39.9 million in fiscal 2014 compared to \$29.0 million in fiscal 2013. Adjusting for the prior year acquisitions, cost of services expense increased \$1.9 million as compared to the prior year. The increase came from Futurestep in order to support the large RPO contracts won by the Company in fiscal 2014 for which delivery began in the last two quarters of fiscal 2014 and will continue in subsequent periods. Cost of services expense as a percentage of fee revenue was 4% in both fiscal 2014 and 2013.

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

Depreciation and amortization expenses were \$26.2 million, an increase of \$7.2 million in fiscal 2014 compared to \$19.0 million in fiscal 2013. Adjusting for the prior year acquisitions, depreciation and amortization expenses increased \$2.1 million as compared to the year-ago period. This expense relates mainly to computer equipment, software, furniture and fixtures, leasehold improvements and intangible assets.

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

We continued the implementation of the fiscal 2013 restructuring plan during fiscal 2014 in order to integrate the prior year acquisitions by consolidating and eliminating certain redundant office space around the world and by continuing to consolidate certain overhead functions. As a result, we recorded \$3.7 million in restructuring charges, net in fiscal 2014, of which \$2.9 million relates to consolidation of premise and \$0.8 million relates to severance. During fiscal 2013, we implemented restructuring plans in order to rationalize our cost structure in response to anticipated revenue levels and in order to eliminate redundant positions that were created due to the prior year acquisitions. As a result, we recorded \$22.8 million of restructuring charges, net with \$16.3 million of severance costs to align our work force to current levels of business activities and to

eliminate redundant positions due to the integration of the prior year acquisitions and \$6.5 million relating to the consolidation of premises during fiscal 2013. In fiscal 2015, we plan on implementing a restructuring plan in order to rationalize our cost structure as a result of efficiencies we expect to gain from the implementation of common technology systems designed to allow us to further integrate our legacy business with prior year acquisitions and other cost saving initiatives. We expect restructuring charges in the first quarter of fiscal 2015 to range from \$5.0 million to \$6.0 million.

### ***Operating Income***

Operating income increased \$47.7 million to \$91.6 million in fiscal 2014 as compared to \$43.9 million in fiscal 2013. This increase in operating income resulted from an increase in fee revenue of \$147.5 million and a reduction in restructuring expenses of \$19.1 million, offset by an increase in compensation and benefits expense of \$91.6 million, an increase in general and administrative expenses of \$9.2 million, an increase in cost of services expense of \$10.9 million, and an increase in depreciation and amortization expenses of \$7.2 million in fiscal 2014 as compared to fiscal 2013.

Executive Recruitment operating income increased \$35.4 million to \$116.4 million in fiscal 2014 as compared to \$81.0 million in fiscal 2013. The increase in Executive Recruitment operating income is attributable to an increase of \$46.4 million in fee revenue and a decrease of \$6.8 million, \$2.1 million and \$1.0 million in restructuring charges, general and administrative expenses and depreciation and amortization expenses, respectively, offset by an increase of \$20.6 million in compensation and benefits expense during fiscal 2014 compared to the prior year. Executive Recruitment operating income as a percentage of fee revenue was 20% in fiscal 2014 as compared to 16% in fiscal 2013.

LTC operating income increased \$17.4 million to \$23.8 million in fiscal 2014 as compared to \$6.4 million in fiscal 2013. The change in LTC operating income was primarily due to an increase of \$86.5 million in fee revenue, offset by an increase in operating expenses of \$69.1 million during fiscal 2014 compared to the prior year. LTC operating income as a percentage of fee revenue was 9% in fiscal 2014 as compared to 4% in fiscal 2013.

Futurestep operating income increased by \$2.3 million to \$13.3 million in fiscal 2014 from \$11.0 million in fiscal 2013. The increase in Futurestep operating income was primarily due to an increase in fee revenue of \$14.6 million and a reduction in restructuring charges of \$2.3 million, offset by an increase of \$11.0 million in compensation and benefits expense, an increase in cost of services expense of \$2.3 million, an increase in general and administrative expenses of \$0.6 million and an increase in depreciation and amortization expenses of \$0.6 million during fiscal 2014 compared to the prior year. Futurestep operating income as a percentage of fee revenue was 10% in fiscal 2014 as compared to 9% in fiscal 2013.

### ***Adjusted EBITDA***

Adjusted EBITDA increased \$40.5 million to \$138.3 million in fiscal 2014 as compared to \$97.8 million in fiscal 2013. This increase in Adjusted EBITDA resulted from an increase of \$147.5 million in fee revenue and an increase of \$3.5 million in other income, mainly due to an increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans during fiscal 2014 compared to the prior year. Offsetting these increases was an increase in compensation and benefits expense (excluding certain separation costs), general and administrative expenses (excluding integration/acquisition costs), and cost of services expense of \$87.7 million, \$11.9 million and \$10.9 million, respectively. Adjusted EBITDA as a percentage of fee revenue was 14% in fiscal 2014 as compared to 12% in fiscal 2013.

Executive Recruitment Adjusted EBITDA increased \$27.9 million to \$127.8 million in fiscal 2014 as compared to \$99.9 million in fiscal 2013. The increase in Executive Recruitment Adjusted EBITDA is attributable to an increase of \$46.4 million in fee revenue, an increase of \$1.0 million in other income, mainly



due to an increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans and a decrease of \$2.1 million in general and administrative expenses, offset by an increase of \$21.2 million in compensation and benefits expense during fiscal 2014 compared to the prior year. Executive Recruitment Adjusted EBITDA as a percentage of fee revenue was 22% in fiscal 2014 as compared to 19% in fiscal 2013.

LTC Adjusted EBITDA increased by \$15.0 million to \$37.6 million in fiscal 2014 as compared to \$22.6 million in fiscal 2013. The increase in LTC Adjusted EBITDA is primarily due to an increase of \$86.5 million in fee revenue, offset by an increase of \$53.4 million, \$10.0 million and \$8.4 million in compensation and benefits expense, general and administrative expenses and cost of service expenses, respectively, during fiscal 2014 compared to the prior year. LTC Adjusted EBITDA as a percentage of fee revenue was 15% in fiscal 2014 and 13% in fiscal 2013.

Futurestep Adjusted EBITDA increased by \$1.2 million to \$16.9 million in fiscal 2014 as compared to \$15.7 million in fiscal 2013. The increase in Futurestep Adjusted EBITDA was primarily due to an increase in fee revenue of \$14.6 million and an increase in other income of \$0.5 million, offset by an increase of \$11.0 million, \$2.3 million and \$0.6 million in compensation and benefits expense, cost of services expenses and general and administrative expenses, respectively, during fiscal 2014 compared to the prior year. Futurestep Adjusted EBITDA as a percentage of fee revenue was 12% in fiscal 2014 and 13% in fiscal 2013.

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

Other income, net increased by \$3.5 million to \$9.8 million in fiscal 2014 as compared to \$6.3 million in fiscal 2013. The increase in other income, net reflects an increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans (see Note 6 — *Deferred Compensation and Retirement Plans*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K) during fiscal 2014 of \$9.5 million compared to \$7.6 million in the prior year. Offsetting this increase in other income, net was an increase in certain deferred compensation retirement plan liabilities (see Note 6 — *Deferred Compensation and Retirement Plans*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K) in fiscal 2014 of \$7.8 million compared to \$5.6 million in fiscal 2013, which resulted in an increase in compensation and benefits expense.

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

Interest expense, net primarily relates to borrowings under our COLI policies, which is partially offset by interest earned on cash and cash equivalent balances. Interest expense, net was \$2.4 million in fiscal 2014 as compared to \$2.3 million in fiscal 2013.

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

The provision for income taxes was \$28.5 million in fiscal 2014 compared to \$16.7 million in fiscal 2013. The provision for income taxes in fiscal 2014 and 2013 reflects a 29% and 35% effective tax rate, respectively. The decrease in the effective tax rate for fiscal 2014 is due to a tax benefit arising in connection with the conclusion of the IRS examination of the Company's U.S. federal income tax returns for the tax years ended April 30, 2010 and 2011, a higher percentage of taxable income arising in jurisdictions with lower statutory tax rates and the reversal of valuation allowance previously recorded against deferred tax assets, including net operating losses of certain foreign subsidiaries that have returned to profitability and are now more-likely-than-not to realize those deferred tax assets.

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

Equity in earnings of unconsolidated subsidiaries is comprised of our less than 50% interest in our Mexican subsidiary and IGroup, LLC. We report our interest in earnings or loss of our Mexican subsidiary and IGroup,



LLC on the equity basis as a one-line adjustment to net income. Equity in earnings was \$2.2 million in fiscal 2014 compared to \$2.1 million in fiscal 2013.

## **Fiscal 2013 Compared to Fiscal 2012**

### ***Fee Revenue***

*Fee Revenue.* Fee revenue increased \$22.3 million, or 3%, to \$812.8 million in fiscal 2013 compared to \$790.5 million in fiscal 2012. The acquisitions of PDI and Global Novations, collectively referred to as current year acquisitions, contributed \$45.6 million in fee revenue in LTC. Excluding fee revenue from the current year acquisitions, fee revenue was \$767.2 million during fiscal 2013, a decrease of \$23.3 million, or 3%, compared to fiscal 2012. The decrease in fee revenue was attributable to a 4% decrease in the weighted-average fees billed per engagement during fiscal 2013 as compared to fiscal 2012, offset by a 2% increase in the number of engagements billed during the same period. Weighted-average fees billed is impacted by the mix of engagements by segment and fluctuating foreign currencies. Exchange rates unfavorably impacted fee revenues by \$15.1 million in fiscal 2013.

*Executive Recruitment.* Executive Recruitment reported fee revenue of \$522.5 million, a decrease of \$38.7 million, or 7%, in fiscal 2013 compared to \$561.2 million in fiscal 2012. As detailed below, Executive Recruitment fee revenue decreased in all regions in fiscal 2013 compared to fiscal 2012. The decrease in Executive Recruitment fee revenue was mainly due to a 4% decrease in the number of Executive Recruitment engagements billed in fiscal 2013 as compared to fiscal 2012 and a 3% decrease in the weighted-average fee billed per engagement during the same period and due to a decline in the number of consultants. Exchange rates unfavorably impacted fee revenues by \$10.5 million in fiscal 2013.

North America reported fee revenue of \$290.3 million, a decrease of \$15.4 million, or 5%, in fiscal 2013 compared to \$305.7 million in fiscal 2012. North America's decrease in fee revenue is primarily due to a 4% decrease in the number of engagements billed during fiscal 2013 as compared to fiscal 2012, and a 1% decrease in the weighted-average fees billed per engagement in the region during the same period. The overall decrease in fee revenue was driven by decreases in fee revenue in the industrial, life sciences/healthcare and financial services sectors, partially offset by the growth in education/non-profit sector. Exchange rates unfavorably impacted North America fee revenue by \$0.4 million in fiscal 2013.

EMEA reported fee revenue of \$128.8 million, a decrease of \$12.6 million, or 9%, in fiscal 2013 compared to \$141.4 million in fiscal 2012. Exchange rates unfavorably impacted EMEA's fee revenue by \$5.9 million in fiscal 2013. EMEA's decrease in fee revenue was primarily driven by a 7% decrease in the number of engagements billed and a 2% decrease in weighted-average fees billed per engagement in fiscal 2013 as compared to fiscal 2012. The performance in existing offices in the France, United Kingdom, Spain, Turkey and Sweden were the primary contributors to the decrease. In terms of business sectors, industrial and life sciences/healthcare experienced the largest decreases in fee revenue, partially offset by the growth in consumer goods, education/non-profit and financial services sectors in fiscal 2013 as compared to fiscal 2012.

Asia Pacific reported fee revenue of \$73.2 million, a decrease of \$9.0 million, or 11%, in fiscal 2013 compared to \$82.2 million in fiscal 2012. Exchange rates unfavorably impacted fee revenue for Asia Pacific by \$1.4 million in fiscal 2013. The decrease was mainly due to a 13% decrease in the number of engagements billed, partially offset by a 3% increase in weighted-average fees billed per engagement in fiscal 2013 compared to fiscal 2012. The decrease in performance in Japan, Australia, Hong Kong, and Malaysia were the primary contributors to the decrease in fee revenue, partially offset by an increase in fee revenues in Singapore. The largest decrease in fee revenue was experienced in the industrial, financial services and consumer goods sectors, offset by growth in the technology sector.

South America reported fee revenue of \$30.2 million, a decrease of \$1.7 million, or 5%, in fiscal 2013 compared to \$31.9 million in fiscal 2012. Exchange rates unfavorably impacted fee revenue for South America

by \$2.8 million in fiscal 2013. The decrease in fee revenue was mainly due to a decrease in the weighted-average fees billed offset by an increase in the number of engagements billed. The decrease in performance in Brazil was the primary contributor to the decrease in fee revenue, offset by increases in fee revenue in Peru and Venezuela. Industrial and financial services were the main sectors contributing to the decrease in fee revenue, partially offset by growth in the technology and consumer goods sectors.

*Leadership & Talent Consulting.* LTC reported fee revenue of \$168.1 million, an increase of \$52.7 million, or 46%, in fiscal 2013 compared to \$115.4 million in fiscal 2012. Excluding fee revenue of \$45.6 million from the current year acquisitions, fee revenue would have been \$122.5 million, an increase of \$7.1 million, or 6% as compared to fiscal 2012. Exchange rates unfavorably impacted fee revenue for LTC by \$2.1 million in fiscal 2013. Excluding fee revenue from the current year acquisitions, the improvement in fee revenue was driven by an increase in broad based client demand with increases in the number of consulting clients. The increase in fee revenue consisted of an increase in fee revenue in EMEA of \$1.3 million, or 6%, to \$24.0 million, an increase in South America fee revenue of \$1.1 million to \$5.0 million, an increase in Asia Pacific fee revenue of \$0.5 million to \$13.5 million and an increase in fee revenue in North America of \$4.2 million or 6% to \$80.0 million.

*Futurestep.* Futurestep reported fee revenue of \$122.2 million, an increase of \$8.3 million, or 7%, in fiscal 2013 compared to \$113.9 million in fiscal 2012. Exchange rates unfavorably impacted fee revenue for Futurestep by \$2.5 million in fiscal 2013. The increase in Futurestep's fee revenue was due to a 14% increase in the number of engagements billed, offset by a 6% decrease in the weighted-average fees billed per engagement in fiscal 2013 compared to fiscal 2012. The increase in fee revenue was also positively impacted by an increase in level of activity for existing clients in fiscal 2013 as compared to fiscal 2012. Improvement in Futurestep fee revenue is primarily driven by increases in recruitment process outsourcing and to a lesser extent recruitment for non-executive professionals.

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

Compensation and benefits expense increased \$21.1 million, or 4%, to \$555.3 million in fiscal 2013 from \$534.2 million in fiscal 2012. The increase in compensation and benefits expense was due to the current year acquisitions, which contributed \$30.9 million in compensation and benefits expense. Excluding the current year acquisitions, compensation and benefits expense decreased by \$9.8 million, or 2% compared to fiscal 2012. The decrease in compensation and benefits was mainly due to a \$9.5 million, or 3% decrease in salaries and related taxes (excluding current year acquisitions). Salaries and related payroll taxes declined due to a decrease in the average Executive Recruitment headcount during fiscal 2013 compared to fiscal 2012. Also contributing to the decline in compensation and benefits expense was a \$1.7 million decrease in performance related bonus expense to \$113.9 million from \$115.6 million as result of a decline in the Company's overall level of profitability as defined by pre-tax income before bonus and restructuring expense in fiscal 2013 compared to fiscal 2012. Offsetting the decline in compensation and benefits expense was an increase in the fair value of amounts owed under certain compensation plans of \$5.2 million, partially offset by \$1.9 million decrease in amortized prepaid compensation and a \$1.8 million decrease in stock based compensation due to a smaller amount of awards granted in fiscal 2013 compared to prior years. Exchange rates favorably impacted compensation and benefits expenses by \$10.2 million during fiscal 2013.

The changes in the fair value of vested amounts owed under certain deferred compensation plans resulted in an increase to compensation and benefits expense of \$5.6 million and \$0.4 million in fiscal 2013 and 2012, respectively. Offsetting these changes in compensation and benefits expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation liabilities), of \$7.6 million and \$1.1 million in fiscal 2013 and 2012, respectively, recorded in other income (loss), net on the consolidated statement of income.

Executive Recruitment compensation and benefits expense decreased \$11.6 million, or 3%, to \$354.1 million in fiscal 2013 compared to \$365.7 million in fiscal 2012, primarily due to a \$8.4 million or

4% decrease in salaries and related payroll taxes, a decrease of \$1.4 million in stock based compensation and a \$1.3 million decline from the reduction in the use of outside contractors due to ongoing cost control initiatives, partially offset by an increase in the fair value of vested amounts owed under certain deferred compensation plans that resulted in an increase in compensation expense of \$4.9 million in fiscal 2013 compared to fiscal 2012. Salaries and related payroll taxes declined due to the decrease in average Executive Recruitment headcount while the decrease in stock based compensation was due to the smaller amount of awards being granted in fiscal 2013 compared to prior years. In addition, performance related bonus expense decreased by \$2.5 million driven by the decrease in Executive Recruitment overall level of profitability. Exchange rates favorably impacted compensation and benefits expense by \$7.2 million during fiscal 2013. Executive Recruitment compensation and benefits expense increased as a percentage of fee revenue to 68% in fiscal 2013 from 65% in fiscal 2012.

LTC compensation and benefits expense increased \$32.7 million, or 52%, to \$95.8 million in fiscal 2013 from \$63.1 million in fiscal 2012. The increase was primarily due to the current year acquisitions, which contributed \$30.9 million of compensation and benefits expense, an increase of \$1.4 million in salaries and related payroll taxes and an increase in performance related bonus expense of \$1.3 million. The increase in the performance related bonus expense was driven by the 6% increase in fee revenue (excluding fee revenue from current year acquisitions), which contributed to the overall level of profitability as defined by pre-tax income before bonus and restructuring expense while the increase in salaries and related payroll taxes is due to a 5% increase in average headcount (excluding current year acquisitions) in fiscal 2013 compared to fiscal 2012. LTC compensation and benefits expense as a percentage of fee revenue increased to 57% in fiscal 2013 from 55% in fiscal 2012. Exchange rates favorably impacted compensation and benefits expense by \$1.4 million during fiscal 2013.

Futurestep compensation and benefits expense increased \$0.1 million to \$82.8 million in fiscal 2013 from \$82.7 million in fiscal 2012. The increase was primarily due to an increase in performance related bonus expense of \$1.2 million which was driven by the 7% increase in fee revenue offset by savings in salaries and related payroll taxes due to fewer senior –level employees and more execution personnel. Exchange rates favorably impacted compensation and benefits expense by \$1.6 million. Futurestep compensation and benefits expense as a percentage of fee revenue decreased to 68% in fiscal 2013 from 73% in fiscal 2012.

Corporate compensation and benefits expense decreased \$0.1 million to \$22.6 million in fiscal 2013 from \$22.7 million in fiscal 2012. Compensation and benefits expense decreased due to a decrease in performance related bonus expense of \$1.7 million. Offsetting the decrease in compensation and benefits expense was a 15% increase in the average headcount contributed in part by transfers of certain individuals performing functions that benefit the Company worldwide.

### ***General and Administrative Expenses***

General and administrative expenses increased \$3.9 million, or 3%, to \$142.8 million in fiscal 2013 compared to \$138.9 million in fiscal 2012. The current year acquisitions, resulted in an increase in general and administrative expenses of \$7.9 million. Excluding the current year acquisitions, general and administrative expenses decreased \$4.0 million, or 3%, in fiscal 2013 compared to fiscal 2012. The decrease in general and administrative expenses is attributable to a decrease in legal and professional fees of \$6.0 million, a decrease in foreign exchange loss of \$2.0 million, a \$0.8 million decrease in business development expense and a decrease in travel related expenses of \$0.7 million. These decreases were partially offset by an increase of \$3.1 million in transaction and integration costs incurred as part of the acquisition of PDI, a reduction in contingent consideration relating to a prior acquisition of \$2.2 million, which reduced general and administrative expenses in fiscal 2012, and an increase in the bad debt expense of \$0.8 million. The decrease in business development expense and travel related expenses was due to the ongoing cost control initiatives. Exchange rates favorably impacted general and administrative expenses by \$3.5 million in fiscal 2013. General and administrative expenses as a percentage of fee revenue was 18% in both fiscal 2013 and 2012.

Executive Recruitment general and administrative expenses decreased \$6.3 million, or 8%, to \$69.9 million in fiscal 2013 from \$76.2 million in fiscal 2012. The decrease in general and administrative expenses was driven by a decrease of \$2.9 million in premise and office expense, \$1.2 million decrease in foreign exchange loss, a decrease of \$0.8 million in travel related expense, \$0.7 million decrease in bad debt expense, and a decrease of \$0.4 million in business development expense. The decrease in premise expense was due to the restructuring that took place in fiscal 2013 and lower maintenance costs while the decrease in bad debt expense was due to a decline in historical bad debt trends. The decrease in travel related expense and business development expense was due to the implementation of ongoing cost control initiatives. Exchange rates favorably impacted general and administrative expenses by \$2.2 million. Executive Recruitment general and administrative expenses as a percentage of fee revenue was 13% in fiscal 2013 compared to 14% in fiscal 2012.

LTC general and administrative expenses increased \$9.2 million, or 55%, to \$25.8 million in fiscal 2013 from \$16.6 million in fiscal 2012. The increase in general and administrative expense was due in large part to the current year acquisitions, which contributed \$7.9 million to the increase. Also contributing to the increase was an increase in bad debt expense of \$0.9 million and an increase in business development expense of \$0.5 million in fiscal 2013 compared to fiscal 2012. The increases in business development expense and bad debt expense were due to the increase in LTC's business activity. Exchange rates favorably impacted general and administrative expenses by \$0.3 million. LTC general and administrative expenses as a percentage of fee revenue was 15% in fiscal 2013 compared to 14% in fiscal 2012.

Futurestep general and administrative expenses decreased \$0.1 million, or 1%, to \$19.0 million in fiscal 2013 from \$19.1 million in fiscal 2012. As compared to fiscal 2012, the following components of general and administrative expenses decreased in fiscal 2013: business development expense decreased \$0.6 million, professional service fees decreased \$0.6 million and travel related expenses decreased \$0.2 million; such decreases were offset by increases in premise and office expense of \$0.8 million and bad debt expense of \$0.5 million due to an increase in business activity during fiscal 2013 compared to fiscal 2012. The decrease in business development and travel related expenses were both due to cost control initiatives, while the decrease in professional services was due to lower legal fees. The increase in the premise and office expense was due to higher maintenance costs. Exchange rates favorably impacted general and administrative expenses by \$1.0 million. Futurestep general and administrative expenses as a percentage of fee revenue was 16% in fiscal 2013 compared to 17% in fiscal 2012.

Corporate general and administrative expenses increased \$1.1 million, or 4%, to \$28.1 million in fiscal 2013 from \$27.0 million in fiscal 2012. The increase in general and administrative expenses was due to \$3.1 million in transaction and integration costs incurred as a result of the acquisition of PDI, and an increase of \$1.1 million in premise and office expense as a result of higher insurance and maintenance costs. In addition, fiscal 2012 included a reduction in a contingent consideration of \$2.2 million relating to a prior acquisition. These increases were partially offset by a decrease of \$5.1 million in professional services mainly due to a decline in legal fees.

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

Cost of services expense consist primarily of non-billable contractor and product costs related to the delivery of various services and products. Cost of service expense increased \$9.4 million, or 48%, to \$29.0 million in the fiscal 2013 compared to \$19.6 million in fiscal 2012. Excluding cost of services expense of \$6.5 million from the current year acquisitions, cost of services expense would have been \$22.5 million, an increase of \$2.9 million compared to fiscal 2012. Cost of services expense as a percentage of fee revenue was 4% and 2% during fiscal 2013 and 2012, respectively.

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

Depreciation and amortization expenses were \$19.0 million and \$14.0 million in fiscal 2013 and 2012, respectively, an increase of \$5.0 million or 36%. This increase is attributable to the current year acquisition

which resulted in an increase in depreciation and amortization expense of \$3.5 million due to the increase in intangible assets from the acquisitions and fixed assets. This expense relates mainly to computer equipment, software, furniture and fixtures, leasehold improvements and intangible assets.

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

During fiscal 2013, we implemented two restructuring plans in order to rationalize our cost structure in response to anticipated revenue levels and to focus on the integration synergies associated with the current year acquisitions. As a result, we recorded \$22.8 million of restructuring charges, net with \$16.3 million of severance costs and \$6.5 million in facility costs due to the consolidation and elimination of office space around the world. During fiscal 2012, we increased previously recorded restructuring charges, net by \$0.9 million, primarily related to the inability to sublease space, which was included in the original estimate.

### ***Operating Income***

Operating income decreased \$39.0 million to \$43.9 million in fiscal 2013 as compared to \$82.9 million in fiscal 2012. This decrease in operating income resulted from an increase in restructuring charges, compensation and benefits expense, cost of services expense, depreciation and amortization expenses and general administrative expenses of \$21.9 million, \$21.1 million, \$9.4 million, \$5.0 million and \$3.9 million, respectively, offset by a \$22.3 million increase in fee revenue, during fiscal 2013 as compared to fiscal 2012. Operating margin declined by 5.1 percentage points during fiscal 2013 as compared to fiscal 2012, primarily due to a change in mix of fee revenues by operating segment, lower operating margins in Executive Recruitment and LTC, partially offset by an increase in Futurestep operating margins and an increase in the operating loss in the Corporate segment.

Executive Recruitment operating income decreased \$28.9 million to \$81.0 million in fiscal 2013 as compared to \$109.9 million in fiscal 2012. The decrease in Executive Recruitment operating income is attributable to a decrease of \$38.7 million in fee revenue and an increase in restructuring charges of \$7.3 million, offset by a decrease of \$11.6 million in compensation and benefits expense and a decrease of \$6.3 million in general and administrative expenses, as compared to fiscal 2012. Executive Recruitment operating income during fiscal 2013 as a percentage of fee revenue was 16% compared to 20% in fiscal 2012.

LTC operating income decreased by \$10.0 million to \$6.4 million in fiscal 2013 as compared to \$16.4 million in fiscal 2012. The decrease in LTC operating income is primarily due to an increase of \$32.7 million in compensation and benefits expense, \$9.2 million in general and administrative expenses, \$10.2 million in restructuring charges, \$7.1 million in cost of services expense and \$3.4 million in depreciation and amortization expenses, offset by an increase of \$52.7 million in fee revenue, during fiscal 2013 as compared to fiscal 2012. LTC operating income as a percentage of fee revenue was 4% in fiscal 2013 compared to 14% in fiscal 2012 and was negatively impacted, in part, by the incremental infrastructure and support services costs related to the current year acquisitions.

Futurestep operating income increased by \$2.5 million to \$11.0 million in fiscal 2013 as compared to \$8.5 million in fiscal 2012. The increase in Futurestep operating income was primarily due to an increase in fee revenue of \$8.3 million, offset by an increase in cost of services expense of \$2.2 million and an increase in restructuring of \$3.4 million during fiscal 2013 as compared to fiscal 2012. Futurestep operating income as a percentage of fee revenue was 9% in fiscal 2013 compared to 7% in fiscal 2012.

### ***Adjusted EBITDA***

Adjusted EBITDA decreased \$3.5 million to \$97.8 million in fiscal 2013 as compared to \$101.3 million in fiscal 2012. This decrease in adjusted EBITDA resulted from an increase in compensation and benefits expense (excluding certain separation costs), cost of services expense, and general administrative expenses (excluding



transaction and integration costs) of \$22.4 million, \$9.4 million, and \$0.8 million, respectively, offset by a \$22.3 million increase in fee revenue and \$6.6 million in other income, during fiscal 2013 as compared to fiscal 2012. Adjusted EBITDA margin declined by 0.8 percentage points during fiscal 2013 as compared to fiscal 2012, primarily due to a change in mix of fee revenues by operating segment, lower adjusted EBITDA margins in Executive Recruitment, partially offset by an increase in Futurestep adjusted EBITDA margins and a decrease in the adjusted EBITDA in the Corporate segment.

Executive Recruitment adjusted EBITDA decreased \$19.0 million to \$99.9 million in fiscal 2013 as compared to \$118.9 million in fiscal 2012. The decrease in Executive Recruitment adjusted EBITDA is attributable to a decrease of \$38.7 million in fee revenue, offset by a decrease of \$12.2 million in compensation and benefits expense (excluding certain separation costs) and a decrease of \$6.3 million in general and administrative expenses, as compared to fiscal 2012. Executive Recruitment adjusted EBITDA during fiscal 2013 as a percentage of fee revenue was 19% compared to 21% in fiscal 2012.

LTC adjusted EBITDA increased by \$3.5 million to \$22.6 million in fiscal 2013 as compared to \$19.1 million in fiscal 2012. The increase in LTC adjusted EBITDA is primarily due to an increase of \$52.7 million in fee revenue, offset by an increase of \$32.7 million in compensation and benefits expense, \$7.1 million in cost of services expense and \$9.2 million in general and administrative expenses during fiscal 2013 as compared to fiscal 2012. LTC adjusted EBITDA as a percentage of fee revenue was 13% in fiscal 2013 compared to 17% in fiscal 2012 and was negatively impacted, in part, by the incremental infrastructure and support services costs related to the current year acquisitions.

Futurestep adjusted EBITDA increased by \$5.1 million to \$15.7 million in fiscal 2013 as compared to \$10.6 million in fiscal 2012. The increase in Futurestep adjusted EBITDA was primarily due to an increase in fee revenue of \$8.3 million, offset by an increase in cost of services expense of \$2.2 million and an increase in compensation and benefits expense (excluding certain separation costs) of \$1.0 million during fiscal 2013 as compared to fiscal 2012. Futurestep adjusted EBITDA as a percentage of fee revenue was 13% in fiscal 2013 compared to 9% in fiscal 2012.

#### ***Other Income (Loss), Net***

Other income (loss), net increased by \$6.6 million, to income of \$6.3 million in fiscal 2013 compared to a loss of \$0.3 million in fiscal 2012. The increase in other income (loss), net reflects a \$6.5 million increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans (see Note 6 — *Deferred Compensation and Retirement Plans*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K) during fiscal 2013 as compared to fiscal 2012. Offsetting this increase in other income (loss), net is a \$5.4 million increase in certain deferred compensation retirement plan liabilities (see Note 6 — *Deferred Compensation and Retirement Plans*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K) during the same period, which resulted in an increase of compensation and benefits expense.

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

Interest expense, net primarily relates to borrowings under our COLI policies, which is partially offset by interest earned on cash and cash equivalent balances. Interest expense, net was \$2.3 million and \$1.8 million in fiscal 2013 and 2012, respectively.

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

Equity in earnings of unconsolidated subsidiaries, net is comprised of our less than 50% interest in our Mexican subsidiary and IGroup, LLC. IGroup, LLC became an unconsolidated subsidiary in the third quarter of fiscal 2012 when we sold a portion of the interest in the subsidiary. We report our interest in earnings or loss of



our Mexican subsidiary and IGroup, LLC on the equity basis as a one-line adjustment to net income, net of taxes. Equity in earnings was \$2.1 million in fiscal 2013, compared to \$1.9 million in fiscal 2012.

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

The provision for income taxes was \$16.7 million in fiscal 2013 compared to \$28.4 million in fiscal 2012. The provision for income taxes in fiscal 2013 and 2012 reflects a 35% effective tax rate for both periods.

### **Liquidity and Capital Resources**

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

Cash and cash equivalents and marketable securities were \$468.3 million and \$366.0 million as of April 30, 2014 and 2013, respectively. As of April 30, 2014 and 2013, we held \$193.3 million and \$146.8 million, respectively of cash and cash equivalents in foreign locations, substantially all of which is readily convertible into other foreign currencies. If these amounts were distributed to the United States, in the form of dividends, we would be subject to additional U.S. income taxes. The Company has a plan to distribute a portion of the cash held in foreign locations to the United States. No deferred tax liability has been recorded because no additional taxes would arise in connection with distributions from the foreign locations in the distribution plan. Cash and cash equivalents consist of cash and highly liquid investments purchased with original maturities of three months or less. Marketable securities consist of mutual funds and investments in corporate bonds and U.S. Treasury and agency securities. The primary objectives of our investment in mutual funds are to meet the obligations under certain of our deferred compensation plans, while the other securities are available for general corporate purposes.

As of April 30, 2014 and 2013, our marketable securities of \$134.6 million and \$141.9 million, respectively, included \$116.2 million (net of gross unrealized gains of \$9.2 million and gross unrealized losses of \$0.7 million) and \$98.0 million (net of gross unrealized gains of \$3.1 million and no gross unrealized losses), respectively, held in trust for settlement of our obligations under certain deferred compensation plans, of which \$111.7 million and \$93.5 million, respectively, are classified as non-current. Our vested and unvested obligations for which these assets were held in trust totaled \$117.6 million and \$99.2 million as of April 30, 2014 and 2013, respectively. As of April 30, 2014 and 2013, we had marketable securities classified as available-for-sale with a balance of \$18.4 million and \$43.9 million, respectively.

The net increase in our working capital of \$96.5 million as of April 30, 2014 compared to April 30, 2013 is primarily attributable to an increase in cash and cash equivalents and accounts receivable and a decrease in other accrued liabilities, partially offset by an increase in compensation and benefits payable and a decrease in marketable securities. The increase in cash and cash equivalents was due to an increase in profitability during fiscal 2014 compared to fiscal 2013 while accounts receivable increased due to an increase in total revenue. Compensation and benefits payable increased due to the increase in performance related bonuses as profitability increased. The decrease in other accrued liabilities was due to the contingent consideration payment of \$15.0 million made to the selling stockholders of PDI. Cash provided by operating activities was \$129.5 million in fiscal 2014, an increase of \$67.8 million, from cash provided by operating activities of \$61.7 million in fiscal 2013. The increase in cash provided in operating activities is primarily due to an increase in profitability in fiscal 2014 compared to fiscal 2013.

Cash used in investing activities was \$23.6 million in fiscal 2014, a decrease of \$93.1 million from cash used in investing activities of \$116.7 million in fiscal 2013. The decrease in cash used in investing activities is primarily attributable to the purchase price payment for the acquisition of PDI of \$77.6 million and Global Novations of \$34.5 million in fiscal 2013 with no such purchase price payments in fiscal 2014. In addition cash used in investing activities decreased due to \$15.2 million in net purchase and sales/maturities of marketable securities. These were offset by the payment of the contingent consideration to the selling stockholders of PDI of \$15.0 million, an increase in cash used to purchase property and equipment (including capitalized software) of \$15.5 million and a decrease in the amount of restricted cash that became unrestricted during fiscal year 2014 compared to fiscal 2013.

Cash provided by financing activities was \$5.6 million in fiscal 2014, an increase of \$6.0 million from cash used by financing activities of \$0.4 million in fiscal 2013. Cash provided in financing activities increased primarily due to an increase of \$5.8 million in cash proceeds from the exercise of employee stock options, and a decrease in the cash used to repurchase shares of common stock to satisfy tax withholding requirements upon the vesting of restricted stock by \$0.6 million. As of April 30, 2014, \$24.4 million remained available for common stock repurchases under our stock repurchase program, approved by the Board of Directors on November 2, 2007.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements and have not entered into any transactions involving unconsolidated, special purpose entities.

### Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude contingent liabilities for which we cannot reasonably predict future payment. The following table represents our contractual obligations as of April 30, 2014:

	Note(1)	Payments Due in:				
		Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
(in thousands)						
Operating lease commitments . . . . .	14	\$203,987	\$41,177	\$57,421	\$40,994	\$64,395
Accrued restructuring charges(2) . . . . .	7	2,340	1,620	621	99	—
Interest payments on COLI loans(3) . . . . .	10	48,951	4,117	8,235	8,225	28,374
Total . . . . .		<u>\$255,278</u>	<u>\$46,914</u>	<u>\$66,277</u>	<u>\$49,318</u>	<u>\$92,769</u>

- (1) See Note in the accompanying consolidated financial statements in Item 15.
- (2) Represents rent payments, net of sublease income on an undiscounted basis and severance costs.
- (3) Assumes COLI loans remain outstanding until receipt of death benefits on COLI policies and applies current interest rates on COLI loans ranging from 4.76% to 8.00% with total death benefits payable, net of loans under COLI contracts of \$214.2 million at April 30, 2014.

In addition to the contractual obligations above, we have liabilities related to certain employee benefit plans. These liabilities are recorded in our Consolidated Balance Sheets. The obligations related to these employee benefit plans are described in Note 6 — *Deferred Compensation and Retirement Plans*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K.

Lastly, we have contingent commitments under certain employment agreements that are payable upon involuntary, termination without cause, as described in Note 14 — *Commitments and Contingencies*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K.

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

The Company purchased Company Owned Life Insurance (“COLI”) policies or contracts insuring certain employees eligible to participate in the deferred compensation and pension plans as a means of funding benefits under such plans. As of April 30, 2014 and 2013, we held contracts with gross CSV of \$167.2 million and \$159.2 million, respectively. In fiscal 2014 and 2013, we paid our premiums under our COLI contracts from operating cash, and in prior years, we generally borrowed under our COLI contracts to pay related premiums. Such borrowings do not require annual principal repayments, bear interest primarily at variable rates and are secured by the CSV of COLI contracts. Total outstanding borrowings against the CSV of COLI contracts were \$72.9 million and \$73.3 million as of April 30, 2014 and 2013, respectively. At April 30, 2014 and 2013, the net cash value of these policies was \$94.3 million and \$85.9 million, respectively. Total death benefits payable, net of loans under COLI contracts, were \$214.2 million and \$212.7 million at April 30, 2014 and 2013, respectively.

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

Our senior unsecured revolving Credit Agreement provides for an aggregate availability up to \$75.0 million with an option to increase the facility by an additional \$50.0 million, subject to lender consent, and a \$15.0 million sub-limit for letters of credit (the “Credit Agreement”). The Credit Agreement matures on January 18, 2018. Borrowings under the Credit Agreement bear interest, at our election, at the London Interbank Offered Rate (“LIBOR”) plus the applicable margin or the base rate plus the applicable margin. The base rate is the highest of (i) the published prime rate, (ii) the federal funds rate plus 1.50%, or (iii) one month LIBOR plus 1.50%. The applicable margin is based on a percentage per annum determined in accordance with a specified pricing grid based on the total funded debt to adjusted EBITDA ratio. For LIBOR loans, the applicable margin will range from 0.50% to 1.50% per annum, while for base rate loans the applicable margin will range from 0.00% to 0.25% per annum. We are required to pay a quarterly commitment fee of 0.25% to 0.35% on the facility’s unused commitments based on the Company’s funded debt to adjusted EBITDA ratio. The financial covenants include a maximum consolidated funded debt to adjusted EBITDA ratio, and a minimum adjusted EBITDA, each as defined in the Credit Agreement. As of April 30, 2014, we complied with the financial covenants. In addition, there is a domestic liquidity requirement that we maintain \$50.0 million in unrestricted cash and/or marketable securities (excluding any marketable securities that are held in trust for the settlement of our obligations under certain deferred compensation plans) as a condition to consummating permitted acquisitions, paying dividends to our shareholders and shares repurchases of our common stock. We are permitted to pay up to \$50.0 million in dividends in any fiscal year (subject to the satisfaction of certain conditions), which amount is further limited by any shares repurchased and any consideration paid with respect to acquisitions during such fiscal year.

As of April 30, 2014 and 2013, we had no borrowings under our long-term debt arrangements. At April 30, 2014 and 2013, there was \$2.8 million and \$2.7 million, respectively, of standby letters of credit issued under our long-term debt arrangements. As of April 30, 2013, under our previous senior secured credit agreement, we were required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that remain outstanding. During fiscal 2014, we transferred the standby letters of credit associated with certain lease for premises from the previous senior secured credit agreement to our current senior unsecured revolving credit agreement and as a result we had no restricted cash balance as of April 30, 2014 compared to \$2.9 million at April 30, 2013. We have a total of \$1.5 million and \$1.4 million of standby letters of credits with other financial institutions as of April 30, 2014 and 2013, respectively.

We are not aware of any other trends, demands or commitments that would materially affect liquidity or those that relate to our resources.

## **Accounting Developments**

### ***Recently Adopted Accounting Standards***

In February 2013, the Financial Accounting Standards Board (“FASB”) issued updated guidance requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income (“AOCI”) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. No changes were made to the current requirements for reporting net income or other comprehensive income in the financial statements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2012. The Company adopted this guidance during fiscal, 2014 and the adoption did not have an impact on the financial statements of the Company.

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

### ***Recently Proposed Accounting Standards***

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

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

In May 2014, the FASB issued guidance that supersedes revenue recognition requirements regarding contracts with customers to transfer goods or services or for the transfer of nonfinancial assets. Under the new guidance, entities are required to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis to be performed on transactions to determine when and how revenue is recognized. This new guidance is effective for fiscal years and interim periods within those annual years beginning after December 15, 2016. The Company will adopt this guidance beginning May 1, 2017. The Company is currently evaluating the effect the guidance will have on our financial condition and results of operations.

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

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

**Foreign Currency Risk**

Substantially all our foreign subsidiaries' operations are measured in their local currencies. Assets and liabilities are translated into U.S. dollars at the rates of exchange in effect at the end of each reporting period and revenue and expenses are translated at average rates of exchange during the reporting period. Resulting translation adjustments are reported as a component of accumulated other comprehensive income on our consolidated balance sheets.

Transactions denominated in a currency other than the reporting entity's functional currency may give rise to transaction gains and losses that impact our results of operations. Historically, we have not realized significant foreign currency gains or losses on such transactions. Foreign currency gains, on an after tax basis, included in net income were \$1.0 million during fiscal 2014. Foreign currency losses, on an after tax basis, included in net income were \$0.5 million and \$1.6 million during fiscal 2013 and fiscal 2012, respectively.

Our primary exposure to exchange losses or gains is based on outstanding intercompany loan balances denominated in U.S. dollars. If the U.S. dollar strengthened or weakened by 15%, 25% and 35% against the Pound Sterling, the Euro, the Canadian dollar, the Australian dollar and the Yen, our exchange loss or gain during fiscal 2014 would have been \$1.9 million, \$3.2 million and \$4.4 million, respectively, based on outstanding balances at April 30, 2014.

**Interest Rate Risk**

We primarily manage our exposure to fluctuations in interest rates through our regular financing activities, which generally are short term and provide for variable market rates. As of April 30, 2014 and 2013, we had no outstanding borrowings under our Credit Agreement. We had \$72.9 million and \$73.3 million of borrowings against the CSV of COLI contracts as of April 30, 2014 and 2013, respectively, bearing interest primarily at variable rates. The risk of fluctuations in these variable rates is minimized by the fact that we receive a corresponding adjustment to our borrowed funds crediting rate on the CSV on our COLI contracts.

**Item 8. Financial Statements and Supplementary Data**

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

Supplemental Financial Information regarding quarterly results is contained in Note 15 — *Quarterly Results*, in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K.

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

Not applicable.

**Item 9A. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures.

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

(b) Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting during the fourth fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. See Management's Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting on pages F-2 and F-3, respectively.

**Item 9B. Other Information**

***Byrne Mulrooney New Letter Agreement***

On June 26, 2014, the Company entered into a letter agreement (the "Letter Agreement") with Byrne Mulrooney that supersedes his existing letter agreement dated as of March 15, 2010.

Pursuant to the Letter Agreement, Mr. Mulrooney will continue to serve as the Chief Executive Officer of Futurestep on an at-will basis and will receive an annual base salary of \$450,000. Mr. Mulrooney is eligible to receive an annual incentive award consisting of a combination of cash and long-term equity incentives of up to \$1,350,000 with a target annual incentive award of \$650,000. In addition, Mr. Mulrooney will continue to be eligible to participate in employee benefit plans, arrangements and programs maintained from time to time by the Company for the benefit of senior executives.

In the event that Mr. Mulrooney's employment is terminated (i) by the Company for any reason other than "cause" (as defined in the Letter Agreement) or due to Mr. Mulrooney's death or disability or (ii) by Mr. Mulrooney for "good reason" (as defined in the Letter Agreement), and such termination occurs prior to or more than 12 months following the occurrence of a "change in control" (as defined in the Letter Agreement), the Company will pay Mr. Mulrooney the following severance payments subject to his execution of a general release and compliance with the restrictive covenants set forth in the agreement: (i) his accrued compensation, (ii) a pro-rata portion of his annual cash incentive award for the year in which termination occurs based on the Company's actual performance for such full year and the number of days Mr. Mulrooney was employed during such year, (iii) a cash payment equal to one time his then current annual base salary to be paid in equal monthly installments over 12 months and (iv) reimbursement of COBRA coverage premiums for Mr. Mulrooney and his covered dependents for up to 18 months following termination. In addition, any outstanding equity awards held by Mr. Mulrooney at the time of such termination (other than any performance shares) and all of Mr. Mulrooney's benefits under the Executive Capital Accumulation Plan ("ECAP") that would have vested in the 12 months following such termination will become fully vested as of the date of termination and, to the extent applicable, will remain exercisable until the earlier of two years following such termination or the originally scheduled expiration date. Mr. Mulrooney will also receive a number of performance shares and/or a payout under any long-term performance-based cash incentive program (as applicable) based on the full number of performance shares and/or full value of the cash award that would have been earned if Mr. Mulrooney had remained employed for the entirety of any open performance period based upon actual Company performance during such period and pro-rated for the numbers of days actually employed during such performance period plus an additional 365 days provided that the numerator shall not exceed the number of days in the applicable performance period.

In the event that Mr. Mulrooney's employment is terminated (i) by the Company for any reason other than "cause" or due to Mr. Mulrooney's death or disability or (ii) by Mr. Mulrooney for "good reason" and such termination occurs within 12 months following the occurrence of a "change in control", then Mr. Mulrooney will be entitled to receive the same severance benefits as described above (subject to the execution of a general release) except that the cash payment described in (iii) above will equal one time Mr. Mulrooney's then current annual base salary plus his then current target annual incentive award and Mr. Mulrooney will be entitled to full vesting of his outstanding equity awards and all benefits under the ECAP; provided, however, that with respect to performance-based awards, such vesting will be based on actual performance through the date of the "change in control".



In addition, Mr. Mulrooney's offer letter includes certain restrictive covenants which limit his ability, following the termination of his employment, to solicit Company employees and clients as well as restrict his ability to become an employee of or otherwise provide services to certain competitors.

The above description is a summary of the terms of the Letter Agreement and is qualified in its entirety by reference to the full text of the Letter Agreement, which is attached as Exhibit 10.33 to this Annual Report.

### **PART III.**

#### **Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by this Item will be included under the captions “The Board of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” and elsewhere in our 2014 Proxy Statement, and is incorporated herein by reference. The information under the heading “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K is also incorporated by reference in this section.

We have adopted a “Code of Business Conduct and Ethics,” which is applicable to our directors, chief executive officer and senior financial officers, including our principal financial officer, who is also our principal accounting officer. The Code of Business Conduct and Ethics is available on our website at [www.kornferry.com](http://www.kornferry.com). We intend to post amendments to or waivers to this Code of Business Conduct and Ethics on our website when adopted.

#### **Item 11. *Executive Compensation***

The information required by this Item will be included in our 2014 Proxy Statement, and is incorporated herein by reference.

#### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item will be included under the caption “Security Ownership of Certain Beneficial Owners and Management” and elsewhere in our 2014 Proxy Statement, and is incorporated herein by reference.

#### **Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item will be included under the caption “Certain Relationships and Related Transactions” and elsewhere in our 2014 Proxy Statement, and is incorporated herein by reference.

#### **Item 14. *Principal Accountant Fees and Services***

The information required by this Item will be included under the captions “Fees Paid to Ernst & Young LLP,” and “Audit Committee Pre-Approval Policies and Procedures,” and elsewhere in our 2014 Proxy Statement, and is incorporated herein by reference.

**PART IV.**

**Item 15. Exhibits and Financial Statement Schedules**

**Financial Statements.**

	<u>Page</u>
1. <i>Index to Financial Statements:</i>	
See Consolidated Financial Statements included as part of this Form 10-K and Schedule II — Valuation and Qualifying Accounts. Pursuant to Rule 7-05 of Regulation S-X, the other schedules have been omitted as the information to be set forth therein is included in the notes of the audited consolidated financial statements . . . . .	F-1

**Exhibits:**

<u>Exhibit Number</u>	<u>Description</u>
2.1**+	Agreement and Plan of Merger, dated as of December 5, 2012, by and among Korn/Ferry International, Personnel Decisions International Corporation, Unity Sub, Inc., Personnel Decisions International Corporation, all of the stockholders of Personnel Decisions International Corporation, and PDI Stockholder Representative, LLC, filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K, filed on December 6, 2012.
3.1+	Restated Certificate of Incorporation of the Company, filed as Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q, filed December 9, 2013.
3.2+	Certificate of Designations of 7.5% Convertible Series A Preferred Stock, filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K, filed June 18, 2002.
3.3+	Third Amended and Restated Bylaws of the Company, filed as Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q, filed December 9, 2013.
4.1+	Form of Common Stock Certificate of the Company, filed as Exhibit 4.1 to the Company’s Registration Statement on Form S-3 (No. 333-49286), filed November 3, 2000.
10.1*+	Form of Indemnification Agreement between the Company and some of its executive officers and directors, filed as Exhibit 10.1 to the Company’s Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.2*+	Form of U.S. and International Worldwide Executive Benefit Retirement Plan, filed as Exhibit 10.3 to the Company’s Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.3*+	Form of U.S. and International Worldwide Executive Benefit Life Insurance Plan, filed as Exhibit 10.4 to the Company’s Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.4*+	Worldwide Executive Benefit Disability Plan (in the form of Long-Term Disability Insurance Policy), filed as Exhibit 10.5 to the Company’s Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.5*+	Form of U.S. and International Enhanced Executive Benefit and Wealth Accumulation Plan, filed as Exhibit 10.6 to the Company’s Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.

<u>Exhibit Number</u>	<u>Description</u>
10.6*+	Form of U.S. and International Senior Executive Incentive Plan, filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.7*+	Executive Salary Continuation Plan, filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.8*+	Form of Amended and Restated Stock Repurchase Agreement, filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.9*+	Form of Standard Employment Agreement, filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.10*+	Form of U.S. and Foreign Executive Participation Program, filed as Exhibit 10.27 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999.
10.11*+	Korn/Ferry International Second Amended and Restated Performance Award Plan, filed as Appendix A to the Company's Definitive Proxy Statement, filed August 12, 2004.
10.12*+	Form of Indemnification Agreement between the Company and some of its executive officers and directors, filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed March 12, 2004.
10.13+	Summary of Non-Employee Director Compensation, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 10, 2012.
10.14*+	Form of Restricted Stock Award Agreement to Employees Under the Performance Award Plan filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 29, 2006.
10.15*+	Form of Restricted Stock Award Agreement to Non-Employee Directors Under the Performance Award Plan filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed June 29, 2006.
10.16*+	Stock and Asset Purchase Agreement dated as of August 8, 2006, by and among Lominger Limited, Inc., Lominger Consulting, Inc., Michael M. Lombardo, Robert W. Eichinger, and the Company filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed September 8, 2006.
10.17*+	Letter from the Company to Gary Burnison, dated March 30, 2007, filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K, filed June 29, 2007.
10.18*+	Employment Agreement between the Company and Gary Burnison, dated April 24, 2007, filed as Exhibit 10.41 to the Company's Annual Report on Form 10-K, filed June 29, 2007.
10.19*+	Form of Restricted Stock Unit Award Agreement to Directors Under the Performance Award Plan, filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed December 10, 2007.
10.20*+	Letter from the Company to Ana Dutra, dated January 16, 2008, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed March 11, 2008.
10.21*+	Form of Restricted Stock Award Agreement to Employees and Non-Employee Directors Under the Korn/Ferry International 2008 Stock Incentive Plan, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed June 12, 2009.
10.22*+	Form of Stock Option Agreement to Employees and Non-Employee Directors Under the Korn/Ferry International 2008 Stock Incentive Plan, filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed June 12, 2009.
10.23*+	Korn/Ferry International Executive Capital Accumulation Plan, filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-111038), filed December 10, 2003.

<u>Exhibit Number</u>	<u>Description</u>
10.24*+	Letter Agreement between the Company and Gary D. Burnison dated June 25, 2009, filed as Exhibit 10.51 to the Company's Annual Report on Form 10-K, filed June 29, 2009.
10.25*+	Employment Agreement between the Company and Byrne Mulrooney dated March 5, 2010, filed as Exhibit 10.40 to the Company's Annual Report on Form 10-K, filed June 29, 2010.
10.26*+	Korn/Ferry International Amended and Restated Employee Stock Purchase Plan, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed December 12, 2011.
10.27*+	Employment Agreement between the Company and Robert P. Rozek, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed February 21, 2012.
10.28*+	Separation and General Release Agreement, between Michael DiGregorio and Korn/Ferry International, dated as of February 17, 2012, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 21, 2012.
10.29*+	Second Amended and Restated Korn/Ferry International 2008 Stock Incentive Plan, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 2, 2012.
10.30*+	Form of Restricted Stock Unit Award Agreement to Non-Employee Directors Under the 2008 Stock Incentive Plan, filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K, filed June 25, 2013.
10.31*+	Form of Restricted Stock Unit Award Agreement to Employees Under the 2008 Stock Incentive Plan, filed as Exhibit 10.39 to the Company's Annual Report on Form 10-K, filed June 25, 2013.
10.32*+	Letter Agreement between the Company and R.J. Heckman, Ph.D., dated December 4, 2012, filed as Exhibit 10.40 to the Company's Annual Report on Form 10-K, filed June 25, 2013.
10.33*	Employment Agreement between the Company and Byrne Mulrooney dated June 26, 2014.
21.1	Subsidiaries of Korn/Ferry International.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (contained on signature page).
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a) under the Exchange Act.
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a) under the Exchange Act.
32.1	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Management contract, compensatory plan or arrangement.

\*\* Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

+ Incorporated herein by reference.

## SIGNATURES

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

KORN/FERRY INTERNATIONAL

By: /s/ Robert P. Rozek

**Robert P. Rozek**  
**Executive Vice President and Chief Financial Officer**

Date: June 27, 2014

## POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GEORGE T. SHAHEEN</u> <b>George T. Shaheen</b>	Chairman of the Board and Director	June 27, 2014
<u>/s/ GARY D. BURNISON</u> <b>Gary D. Burnison</b>	President & Chief Executive Officer (Principal Executive Officer) and Director	June 27, 2014
<u>/s/ ROBERT P. ROZEK</u> <b>Robert P. Rozek</b>	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 27, 2014
<u>/s/ WILLIAM R. FLOYD</u> <b>William R. Floyd</b>	Director	June 27, 2014
<u>/s/ JERRY LEAMON</u> <b>Jerry Leamon</b>	Director	June 27, 2014



Signature	Title	Date
<hr/> /s/ EDWARD D. MILLER <hr/> <b>Edward D. Miller</b>	Director	June 27, 2014
<hr/> /s/ DEBRA J. PERRY <hr/> <b>Debra J. Perry</b>	Director	June 27, 2014
<hr/> /s/ GERHARD SCHULMEYER <hr/> <b>Gerhard Schulmeyer</b>	Director	June 27, 2014
<hr/> /s/ HARRY L. YOU <hr/> <b>Harry L. You</b>	Director	June 27, 2014

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2014**

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## **MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Korn/Ferry International (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or supervised by, the issuer’s principal executive and principal financial officers, and effected by the issuer’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company’s internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company’s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company’s annual financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company’s internal control over financial reporting as of April 30, 2014 based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“the COSO Framework”). Management’s assessment included an evaluation of the design of the Company’s internal control over financial reporting and testing of the operational effectiveness of the Company’s internal control over financial reporting.

Based on this assessment, management did not identify any material weakness in the Company’s internal control over financial reporting, and management has concluded that the Company’s internal control over financial reporting was effective as of April 30, 2014.

Ernst & Young, LLP, the independent registered public accounting firm that audited the Company’s financial statements for the year ended April 30, 2014 included in this Annual Report on Form 10-K, has issued an audit report on the effectiveness of the Company’s internal control over financial reporting as of April 30, 2014, a copy of which is included in this Annual Report on Form 10-K.

June 27, 2014

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Stockholders and Board of Directors  
Korn/Ferry International

We have audited Korn/Ferry International and subsidiaries' (the "Company") internal control over financial reporting as of April 30, 2014 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Korn/Ferry International and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of April 30, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Korn/Ferry International and subsidiaries as of April 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2014 and our report dated June 27, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
June 27, 2014

**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

Stockholders and Board of Directors  
Korn/Ferry International

We have audited the accompanying consolidated balance sheets of Korn/Ferry International and subsidiaries (the “Company”) as of April 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended April 30, 2014. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korn/Ferry International and subsidiaries at April 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of April 30, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 27, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
June 27, 2014

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

	April 30,	
	2014	2013
	(in thousands, except per share data)	
<b>ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 333,717	\$ 224,066
Marketable securities . . . . .	9,566	20,347
Receivables due from clients, net of allowance for doubtful accounts of \$9,513 and \$9,097, respectively . . . . .	175,986	161,508
Income taxes and other receivables . . . . .	8,244	8,944
Deferred income taxes . . . . .	4,486	3,511
Prepaid expenses and other assets . . . . .	29,955	28,724
Total current assets . . . . .	561,954	447,100
Marketable securities, non-current . . . . .	124,993	121,569
Property and equipment, net . . . . .	60,434	53,628
Cash surrender value of company owned life insurance policies, net of loans . .	94,274	85,873
Deferred income taxes, net . . . . .	55,039	63,203
Goodwill . . . . .	257,582	257,293
Intangible assets, net . . . . .	49,560	58,187
Investments and other assets . . . . .	29,830	28,376
Total assets . . . . .	\$1,233,666	\$1,115,229
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable . . . . .	\$ 19,375	\$ 19,460
Income taxes payable . . . . .	13,014	5,502
Compensation and benefits payable . . . . .	192,035	160,298
Other accrued liabilities . . . . .	62,509	83,291
Total current liabilities . . . . .	286,933	268,551
Deferred compensation and other retirement plans . . . . .	169,235	159,706
Other liabilities . . . . .	21,962	22,504
Total liabilities . . . . .	478,130	450,761
Commitments and contingencies		
Stockholders' equity:		
Common stock: \$0.01 par value, 150,000 shares authorized, 62,282 and 61,022 shares issued and 49,811 and 48,734 shares outstanding, respectively . . . . .	449,631	431,508
Retained earnings . . . . .	308,781	236,090
Accumulated other comprehensive loss, net . . . . .	(2,388)	(2,631)
Stockholders' equity . . . . .	756,024	664,967
Less: notes receivable from stockholders . . . . .	(488)	(499)
Total stockholders' equity . . . . .	755,536	664,468
Total liabilities and stockholders' equity . . . . .	\$1,233,666	\$1,115,229

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



**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended April 30,		
	2014	2013	2012
	(in thousands, except per share data)		
Fee revenue .....	\$960,301	\$812,831	\$790,505
Reimbursed out-of-pocket engagement expenses .....	35,258	36,870	36,254
Total revenue .....	995,559	849,701	826,759
Compensation and benefits .....	646,889	555,346	534,186
General and administrative expenses .....	152,040	142,771	138,872
Reimbursed expenses .....	35,258	36,870	36,254
Cost of services .....	39,910	28,977	19,635
Depreciation and amortization .....	26,172	19,004	14,017
Restructuring charges, net .....	3,682	22,857	929
Total operating expenses .....	903,951	805,825	743,893
Operating income .....	91,608	43,876	82,866
Other income (loss), net .....	9,769	6,309	(271)
Interest expense, net .....	(2,363)	(2,365)	(1,791)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries .....	99,014	47,820	80,804
Equity in earnings of unconsolidated subsidiaries, net .....	2,169	2,110	1,850
Income tax provision .....	28,492	16,637	28,351
Net income .....	\$ 72,691	\$ 33,293	\$ 54,303
Earnings per common share:			
Basic .....	\$ 1.51	\$ 0.71	\$ 1.17
Diluted .....	\$ 1.48	\$ 0.70	\$ 1.15
Weighted-average common shares outstanding:			
Basic .....	48,162	47,224	46,397
Diluted .....	49,145	47,883	47,261

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

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

	Year Ended April 30,		
	2014	2013	2012
	(in thousands)		
Net income .....	\$72,691	\$33,293	\$ 54,303
Other comprehensive income:			
Foreign currency translation adjustments .....	(1,955)	(5,254)	(12,826)
Deferred compensation and pension plan adjustments, net of tax .....	2,230	(4,578)	(5,644)
Unrealized (losses) gains on marketable securities, net of tax .....	(32)	10	1
Comprehensive income .....	\$72,934	\$23,471	\$ 35,834

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

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total
	Shares	Amount		(in thousands)	
<b>Balance at May 1, 2011</b> .....	47,003	\$404,703	\$148,494	\$ 25,660	\$578,857
Comprehensive income .....	—	—	54,303	(18,469)	35,834
Purchase of stock .....	(190)	(4,215)	—	—	(4,215)
Issuance of stock .....	1,100	4,371	—	—	4,371
Stock-based compensation .....	—	13,475	—	—	13,475
Tax benefit from exercise of stock options .....	—	1,664	—	—	1,664
<b>Balance at April 30, 2012</b> .....	47,913	419,998	202,797	7,191	629,986
Comprehensive income .....	—	—	33,293	(9,822)	23,471
Purchase of stock .....	(197)	(2,838)	—	—	(2,838)
Issuance of stock .....	1,018	2,134	—	—	2,134
Stock-based compensation .....	—	11,920	—	—	11,920
Tax benefit from exercise of stock options .....	—	294	—	—	294
<b>Balance at April 30, 2013</b> .....	48,734	431,508	236,090	(2,631)	664,967
Comprehensive income .....	—	—	72,691	243	72,934
Purchase of stock .....	(113)	(2,249)	—	—	(2,249)
Issuance of stock .....	1,190	8,805	—	—	8,805
Stock-based compensation .....	—	12,160	—	—	12,160
Tax benefit from exercise of stock options .....	—	(593)	—	—	(593)
<b>Balance at April 30, 2014</b> .....	49,811	\$449,631	\$308,781	\$ (2,388)	\$756,024

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

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

	<b>Year Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>		
<b>Cash flows from operating activities:</b>			
Net income	\$ 72,691	\$ 33,293	\$ 54,303
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,172	19,004	14,017
Stock-based compensation expense	12,106	11,906	13,399
Provision for doubtful accounts	7,840	6,748	5,732
Gain on cash surrender value of life insurance policies	(8,242)	(6,502)	(6,268)
Gain on marketable securities	(9,498)	(7,556)	(1,013)
Change in fair value of acquisition-related contingent consideration	—	—	(2,196)
Deferred income taxes	7,598	(176)	6,512
Change in other assets and liabilities, net of effect of acquisitions:			
Deferred compensation	12,186	8,477	6,320
Receivables due from clients	(22,318)	(16,011)	(4,227)
Income taxes and other receivables	896	4,616	(6,664)
Prepaid expenses and other assets	(1,255)	750	2,194
Investment in unconsolidated subsidiaries	(2,169)	(2,110)	(1,850)
Income taxes payable	7,533	(3,399)	4,058
Accounts payable and accrued liabilities	29,104	8,494	(20,519)
Other	(3,162)	4,173	7,177
Net cash provided by operating activities	<u>129,482</u>	<u>61,707</u>	<u>70,975</u>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(28,559)	(13,101)	(18,632)
Purchase of intangible assets	—	—	(325)
Cash paid for acquisitions, net of cash acquired	—	(112,064)	(442)
Purchase of marketable securities	(28,150)	(50,437)	(55,718)
Proceeds from sales/maturities of marketable securities	44,475	51,511	43,181
Change in restricted cash	2,861	7,222	(221)
Payment of purchase price held back from previous acquisition	—	—	(800)
Payment of contingent consideration from acquisition	(15,000)	—	—
Premiums on company-owned life insurance policies	(1,727)	(1,739)	(1,739)
Dividends received from unconsolidated subsidiaries	2,120	1,897	1,669
Other	388	—	—
Net cash used in investing activities	<u>(23,592)</u>	<u>(116,711)</u>	<u>(33,027)</u>
<b>Cash flows from financing activities:</b>			
Payments on life insurance policy loans	(388)	—	—
Borrowings under life insurance policies	—	—	366
Purchase of common stock	(2,249)	(2,838)	(4,215)
Proceeds from issuance of common stock upon exercise of employee stock options and in connection with an employee stock purchase plan	8,805	2,134	4,371
Tax benefit from exercise of stock options	(593)	294	1,664
Net cash provided (used in) by financing activities	<u>5,575</u>	<u>(410)</u>	<u>2,186</u>
Effect of exchange rate changes on cash and cash equivalents	(1,814)	(2,525)	(4,985)
Net increase (decrease) in cash and cash equivalents	109,651	(57,939)	35,149
Cash and cash equivalents at beginning of year	224,066	282,005	246,856
Cash and cash equivalents at end of year	<u>\$333,717</u>	<u>\$ 224,066</u>	<u>\$282,005</u>
<b>Supplemental cash flow information:</b>			
Cash used to pay interest	<u>\$ 4,229</u>	<u>\$ 4,361</u>	<u>\$ 4,480</u>
Cash used to pay income taxes	<u>\$ 15,604</u>	<u>\$ 10,611</u>	<u>\$ 17,916</u>

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

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2014**

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

*Nature of Business*

Korn/Ferry International, a Delaware corporation (the “Company”), and its subsidiaries are engaged in the business of providing talent management solutions, including executive recruitment on a retained basis, recruitment for non-executive professionals, recruitment process outsourcing and leadership & talent consulting services. The Company’s worldwide network of 84 offices in 37 countries enables it to meet the needs of its clients in all industries.

*Basis of Consolidation and Presentation*

The consolidated financial statements include the accounts of the Company and its wholly and majority owned/controlled domestic and international subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The preparation of the consolidated financial statements conform with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and prevailing practice within the industry. The consolidated financial statements include all adjustments, consisting of normal recurring accruals and any other adjustments that management considers necessary for a fair presentation of the results for these periods.

Investments in affiliated companies, which are 50% or less owned and where the Company exercises significant influence over operations, are accounted for using the equity method. Dividends received from our unconsolidated subsidiaries were approximately \$2.1 million, \$1.9 million and \$1.7 million during fiscal 2014, 2013 and 2012, respectively.

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

*Use of Estimates and Uncertainties*

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

*Revenue Recognition*

Substantially all professional fee revenue is derived from fees for professional services related to executive recruitment performed on a retained basis, recruitment for non-executive professionals, recruitment process outsourcing and leadership & talent consulting services. Fee revenue from executive recruitment activities and recruitment for non-executive professionals is generally one-third of the estimated first year cash compensation of the placed executive or non-executive professional, as applicable, plus a percentage of the fee to cover indirect expenses. The Company generally recognizes revenue on a straight-line basis over a three-month period, commencing upon client acceptance, as this is the period over which the recruitment services are performed. Fees

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

earned in excess of the initial contract amount are recognized upon completion of the engagement, which reflect the difference between the final actual compensation of the placed executive and the estimate used for purposes of the previous billings. Since the initial contract fees are typically not contingent upon placement of a candidate, our assumptions primarily relate to establishing the period over which such service is performed. These assumptions determine the timing of revenue recognition and profitability for the reported period. Any revenues associated with services that are provided on a contingent basis are recognized once the contingency is resolved. In addition to recruitment for non-executive professionals, Futurestep provides recruitment process outsourcing (“RPO”) services and fee revenue is recognized as services are rendered. Fee revenue from Leadership & Talent Consulting (“LTC”) services is recognized as services are rendered for consulting engagements and other time based services, measured by total hours incurred to the total estimated hours at completion. It is possible that updated estimates for the consulting engagement may vary from initial estimates with such updates being recognized in the period of determination. Depending on the timing of billings and services rendered, the Company accrues revenue as appropriate. LTC revenue is also derived from the sale of solution services, which includes revenue from licenses and from the sale of products. Revenue from licenses is recognized using a straight-line method over the term of the contract (generally 12 months). Revenue from perpetual licenses is recognized when the license is sold. Products sold by the Company mainly consist of books and automated services covering a variety of topics including performance management, team effectiveness, and coaching and development. The Company recognizes revenue for its products when the product has been sold. As of April 30, 2014 and 2013, the Company included deferred revenue of \$36.8 million and \$33.8 million, respectively, in other accrued liabilities.

***Reimbursements***

The Company incurs certain out-of-pocket expenses that are reimbursed by its clients, which are accounted for as revenue in its consolidated statements of income.

***Allowance for Doubtful Accounts***

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

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. As of April 30, 2014 and 2013, the Company’s investments associated with cash equivalents, consist of money market funds for which market prices are readily available. As of April 30, 2014 and 2013, the Company had cash equivalents of \$186.6 million and \$93.6 million, respectively, classified as Level 1.

***Restricted Cash***

During fiscal 2014, the Company transferred the standby letters of credit associated with certain leases for premises from its prior senior secured credit agreement to its current senior unsecured revolving credit agreement and as a result, the Company had no restricted cash balance as of April 30, 2014 compared to \$2.9 million at April 30, 2013, classified as Level 1 (see Note 10 — *Long-Term Debt*).



**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

***Marketable Securities***

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

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

The Company also invests cash in excess of its daily operating requirements and capital needs primarily in marketable fixed income (debt) securities in accordance with the Company's investment policy, which restricts the type of investments that can be made. The Company's investment portfolio includes corporate bonds and U. S. Treasury and agency securities. These marketable fixed income (debt) securities are classified as available-for-sale securities based on management's decision, at the date such securities are acquired, not to hold these securities to maturity or actively trade them. The Company carries these marketable debt securities at fair value based on the market prices for these marketable debt securities or similar debt securities whose prices are readily available. The changes in fair values, net of applicable taxes, are recorded as unrealized gains or losses as a component of comprehensive income. When, in the opinion of management, a decline in the fair value of an investment below its amortized cost is considered to be "other-than-temporary," a credit loss is recorded in the statement of income in other income (loss), net; any amount in excess of the credit loss is recorded as unrealized gains or losses as a component of comprehensive income. Generally, the amount of the loss is the difference between the cost or amortized cost and its then current fair value; a credit loss is the difference between the discounted expected future cash flows to be collected from the debt security and the cost or amortized cost of the debt security. The determination of the other-than-temporary decline includes, in addition to other relevant factors, a presumption that if the market value is below cost by a significant amount for a period of time, a write-down may be necessary. During fiscal 2014, 2013 and 2012, no other-than-temporary impairment was recognized.

***Fair Value of Financial Instruments***

Fair value is the price the Company would receive to sell an asset or transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities recorded or disclosed at fair value, the Company determines the fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, the fair value is based upon the quoted market price of similar assets. The fair values are assigned a level within the fair value hierarchy as defined below:

- *Level 1*: Observable inputs such as quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

- *Level 2:* Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- *Level 3:* Unobservable inputs that reflect the reporting entity's own assumptions.

As of April 30, 2014 and 2013, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included cash, cash equivalents, accounts receivable and marketable securities. The carrying amount of cash, cash equivalents and accounts receivable approximates fair value due to the short maturity of these instruments. The fair values of marketable securities classified as trading are obtained from quoted market prices, and the fair values of marketable securities classified as available-for-sale are obtained from a third party, which are based on quoted prices or market prices for similar assets.

***Business Acquisitions***

Business acquisitions are accounted for under the acquisition method. The acquisition method requires the reporting entity to identify the acquirer, determine the acquisition date, recognize and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired entity, and recognize and measure goodwill or a gain from the purchase. The acquiree's results are included in the Company's consolidated financial statements from the date of acquisition. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill, or if the fair value of the assets acquired exceeds the purchase price consideration, a bargain purchase gain is recorded. Adjustments to fair value assessments are generally recorded to goodwill over the measurement period (not longer than twelve months). The acquisition method also requires that acquisition-related transaction and post-acquisition restructuring costs be charged to expense as committed, and requires the Company to recognize and measure certain assets and liabilities including those arising from contingencies and contingent consideration in a business combination. During fiscal 2014, the Company paid contingent consideration to the selling stockholders of PDI Ninth House ("PDI") of \$15 million, as required under the merger agreement, as a result of the achievement of certain pre-determined goals associated with expense synergies. During fiscal 2012, the Company recorded a \$2.2 million reduction in the estimated fair value of contingent consideration relating to a prior acquisition as a component of general and administrative expenses.

***Property and Equipment***

Property and equipment is carried at cost less accumulated depreciation. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset, or the lease term, whichever is shorter. Software development costs for internal use are capitalized and, once placed in service, amortized using the straight-line method over the estimated useful life, generally three to seven years. All other property and equipment is depreciated or amortized on a straight-line basis over the estimated useful lives of three to ten years.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price over the fair value of assets acquired. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For each of these tests, the fair value of each of the Company's reporting units is determined using a combination of valuation techniques, including a discounted cash flow methodology. To corroborate the discounted cash flow analysis performed at each reporting unit, a market approach, is utilized using observable market data such as comparable companies in similar lines of business that are publicly traded or which are part of a public or private transaction (to the extent available). Results of the annual impairment test performed as of January 31, 2014, indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recognized. There was also no indication of potential impairment during the fourth quarter of fiscal 2014 that would have required further testing.

Intangible assets primarily consist of customer lists, non-compete agreements, proprietary databases, intellectual property and trademarks and are recorded at their estimated fair value at the date of acquisition and are amortized in a pattern in which the asset is consumed if that pattern can be reliably determined, or using the straight-line method over their estimated useful lives which range from two to 24 years. For intangible assets subject to amortization, an impairment loss is recognized if the carrying amount of the intangible assets is not recoverable and exceeds fair value. The carrying amount of the intangible assets is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from use of the asset. Intangible assets with indefinite lives are not amortized, but are reviewed annually for impairment or more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than its carrying amount. As of April 30, 2014 and 2013, there were no indicators of impairment with respect to the Company's intangible assets.

***Compensation and Benefits Expense***

Compensation and benefits expense in the accompanying consolidated statements of income consist of compensation and benefits paid to consultants (employees who originate business), executive officers and administrative and support personnel. The most significant portions of this expense are salaries and the amounts paid under the annual performance related bonus plan to employees. The portion of the expense applicable to salaries is comprised of amounts earned by employees during a reporting period. The portion of the expenses applicable to annual performance related bonuses refers to the Company's annual employee performance related bonus with respect to a fiscal year, the amount of which is communicated and paid to each eligible employee following the completion of the fiscal year.

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

Because annual performance-based bonuses are communicated and paid only after the Company reports its full fiscal year results, actual performance-based bonus payments may differ from the prior year's estimate. Such

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

changes in the bonus estimate historically have been immaterial and are recorded in current operations in the period in which they are determined. The performance related bonus expense was \$146.1 million, \$114.1 million and \$116.8 million for the years ended April 30, 2014, 2013 and 2012, respectively, which was reduced by a change in the previous years' estimate recorded in fiscal 2014, 2013 and 2012 of \$0.7 million, \$0.2 million and \$1.2 million, respectively. This resulted in net bonus expense of \$145.4 million, \$113.9 million and \$115.6 million for the years ended April 30, 2014, 2013 and 2012, respectively, included in compensation and benefits expense in the consolidated statements of income.

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

***Deferred Compensation and Pension Plans***

For financial accounting purposes, the Company estimates the present value of the future benefits payable under the deferred compensation and pension plans as of the estimated payment commencement date. The Company also estimates the remaining number of years a participant will be employed by the Company. Then, each year during the period of estimated employment, the Company accrues a liability and recognizes expense for a portion of the future benefit using the "benefit/years of service" attribution method for Senior Executive Incentive Plan ("SEIP"), Wealth Accumulation Plan ("WAP") and Enhanced Wealth Accumulation Plan ("EWAP") and the "projected unit credit" method for the Worldwide Executive Benefit Plan ("WEB").

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

***Executive Capital Accumulation Plan***

The Company, under its deferred compensation plans, makes discretionary contributions and such contributions may be granted to key employees annually based on the employee's performance. Certain key management may also receive Company contributions upon commencement of employment. The Company amortizes these contributions on a straight-line basis as they vest, generally over a four year period. The amounts that are expected to be paid to employees over the next 12 months are classified as a current liability included in compensation and benefits payable on the accompanying balance sheet.

The ECAP is accounted for whereby the changes in the fair value of the vested amounts owed to the participants are adjusted with a corresponding charge (or credit) to compensation and benefits costs.

***Cash Surrender Value of Life Insurance***

The Company purchased COLI policies or contracts insuring certain employees eligible to participate in the deferred compensation and pension plans as a means of funding benefits under such plans. The Company purchased both fixed and variable life insurance contracts and does not purchase "split-dollar" life insurance policy contracts. The Company has both contracts or policies that provide for a fixed or guaranteed rate of return and a variable rate of return depending on the return of the policies' investment in their underlying portfolio in equities and bonds. The CSV of these COLI contracts are carried at the amounts that would be realized if the

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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**April 30, 2014**

contract were surrendered at the balance sheet date, net of the outstanding loans borrowed from the insurer. The Company has the intention and ability to continue these COLI policies and contracts. Additionally, the loans secured by the policies do not have any scheduled payment terms and the Company also does not intend to repay the loans outstanding on these policies until death benefits under the policy have been realized. Accordingly, the investment in COLI is classified as long-term in the accompanying consolidated balance sheet.

The change in the CSV of COLI contracts, net of insurance premiums paid and gains realized, is reported in compensation and benefits expense. As of April 30, 2014 and 2013, the Company held contracts with gross CSV of \$167.2 million and \$159.2 million, offset by outstanding policy loans of \$72.9 million and \$73.3 million, respectively. If the issuing insurance companies were to become insolvent, the Company would be considered a general creditor for \$45.9 million and \$40.5 million of net CSV as of April 30, 2014 and 2013, respectively; therefore, these assets are subject to credit risk. Management, together with its outside advisors, routinely monitors the claims paying abilities of these insurance companies.

***Restructuring Charges***

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

***Stock-Based Compensation***

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

***Translation of Foreign Currencies***

Generally, financial results of the Company’s foreign subsidiaries are measured in their local currencies. Assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date, while revenue and expenses are translated at weighted-average exchange rates during the fiscal year. Resulting translation adjustments are recorded as a component of accumulated comprehensive income. Gains and losses from foreign currency transactions of these subsidiaries and the translation of the financial results of subsidiaries operating in highly inflationary economies are included in general and administrative expense in the period incurred. Foreign currency gains, on an after tax basis, included in net income were \$1.0 million during fiscal 2014, while foreign currency losses, on an after tax basis, included in net income were \$0.5 million and \$1.6 million during fiscal 2013 and 2012, respectively.

***Income Taxes***

There are two components of income tax expense: current and deferred. Current income tax expense (benefit) approximates taxes to be paid or refunded for the current period. Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the basis of assets and liabilities as measured by tax laws and their basis as reported in

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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the consolidated financial statements. Deferred tax assets are also recognized for tax attributes such as net operating loss carryforwards and tax credit carryforwards. Valuation allowances are then recorded to reduce deferred tax assets to the amounts management concludes are more likely than not to be realized.

Income tax benefits are recognized and measured based upon a two-step model: (1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized and (2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. The Company records income tax related interest and penalties within income tax expense.

***Concentration of Credit Risk***

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, investments, receivables due from clients and net CSV due from insurance companies, which is discussed above. Cash equivalents include investments in money market securities while investments include corporate bonds and securities backed by the U.S. government. Investments are diversified throughout many industries and geographic regions. The Company conducts periodic reviews of its customers' financial condition and customer payment practices to minimize collection risk on accounts receivable. At April 30, 2014 and 2013, the Company had no other significant credit concentrations.

***Reclassifications***

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

***Recently Adopted Accounting Standards***

In February 2013, the Financial Accounting Standards Board ("FASB") issued updated guidance requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. No changes were made to the current requirements for reporting net income or other comprehensive income in the financial statements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2012. The Company adopted this guidance during fiscal 2014 and the adoption did not have an impact on the financial statements of the Company.

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



**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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***Recently Proposed Accounting Standards***

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

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

In May 2014, the FASB issued guidance that supersedes revenue recognition requirements regarding contracts with customers to transfer goods or services or for the transfer of nonfinancial assets. Under the new guidance, entities are required to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis to be performed on transactions to determine when and how revenue is recognized. This new guidance is effective for fiscal years and interim periods within those annual years beginning after December 15, 2016. The Company will adopt this guidance beginning May 1, 2017. The Company is currently evaluating the effect the guidance will have on our financial condition and results of operations.

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

Basic earnings per common share was computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per common share was computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding plus dilutive common equivalent shares. Dilutive common equivalent shares include all in-the-money outstanding options or other contracts to issue common stock as if they were exercised or converted. During fiscal 2014, 2013 and 2012, options to purchase 0.04 million shares, 0.50 million shares and 0.57 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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The following table summarizes basic and diluted earnings per share calculations:

	<u>Year Ended April 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands, except per share data)		
<b>Net earnings attributable to common stockholders</b> .....	<u>\$72,691</u>	<u>\$33,293</u>	<u>\$54,303</u>
<b>Weighted-average common shares outstanding:</b>			
Basic weighted-average number of common shares			
outstanding .....	48,162	47,224	46,397
Effect of dilutive securities:			
Restricted stock .....	789	485	582
Stock options .....	194	174	267
ESPP .....	<u>—</u>	<u>—</u>	<u>15</u>
Diluted weighted-average number of common shares			
outstanding .....	<u>49,145</u>	<u>47,883</u>	<u>47,261</u>
<b>Net earnings per common share:</b>			
Basic earnings per share .....	<u>\$ 1.51</u>	<u>\$ 0.71</u>	<u>\$ 1.17</u>
Diluted earnings per share .....	<u>\$ 1.48</u>	<u>\$ 0.70</u>	<u>\$ 1.15</u>

**3. Comprehensive Income**

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

The components of accumulated other comprehensive loss were as follows:

	<u>April 30,</u>	
	<u>2014</u>	<u>2013</u>
	(in thousands)	
Foreign currency translation adjustments .....	\$ 15,604	\$ 17,559
Deferred compensation and pension plan adjustments, net of taxes .....	(18,006)	(20,236)
Unrealized gains on marketable securities, net of taxes .....	<u>14</u>	<u>46</u>
Accumulated other comprehensive loss, net .....	<u>\$ (2,388)</u>	<u>\$ (2,631)</u>

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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The following tables summarizes the changes in each component of accumulated other comprehensive income (loss):

	<u>Foreign Currency Translation</u>	<u>Deferred Compensation and Pension Plan (1)</u>	<u>Unrealized Gains (Losses) on Marketable Securities</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
	(in thousands)			
Balance as of May 1, 2011 . . . . .	\$ 35,639	\$(10,014)	\$ 35	\$ 25,660
Unrealized (losses) gains arising during the period . . . .	(12,826)	(6,560)	5	(19,381)
Reclassification of realized net losses (gains) to net income . . . . .	<u>—</u>	<u>916</u>	<u>(4)</u>	<u>912</u>
Balance as of April 30, 2012 . . . . .	22,813	(15,658)	36	7,191
Unrealized (losses) gains arising during the period . . . .	(5,254)	(6,033)	13	(11,274)
Reclassification of realized net losses (gains) to net income . . . . .	<u>—</u>	<u>1,455</u>	<u>(3)</u>	<u>1,452</u>
Balance as of April 30, 2013 . . . . .	17,559	(20,236)	46	(2,631)
Unrealized (losses) gains arising during the period . . . .	(1,955)	136	(64)	(1,883)
Reclassification of realized net losses to net income . . .	<u>—</u>	<u>2,094</u>	<u>32</u>	<u>2,126</u>
Balance as of April 30, 2014 . . . . .	<u>\$ 15,604</u>	<u>\$(18,006)</u>	<u>\$ 14</u>	<u>\$ (2,388)</u>

(1) The tax effects on unrealized gains (losses) of \$0.07 million, \$(3.8) million and \$(3.6) million as of April 30, 2014, 2013 and 2012, respectively. The tax effects on reclassifications of realized net losses of \$1.0 million, \$0.9 million and \$0.5 million as of April 30, 2014, 2013 and 2012, respectively.

**4. Employee Stock Plans**

*Stock-Based Compensation*

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

	<u>Year Ended April 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)		
Restricted stock . . . . .	\$11,689	\$11,001	\$12,381
Stock options . . . . .	417	905	933
ESPP . . . . .	<u>—</u>	<u>—</u>	<u>85</u>
Total stock-based compensation expense, pre-tax . . . . .	12,106	11,906	13,399
Tax benefit from stock-based compensation expense . . . . .	<u>(3,484)</u>	<u>(4,142)</u>	<u>(4,701)</u>
Total stock-based compensation expense, net of tax . . . . .	<u>\$ 8,622</u>	<u>\$ 7,764</u>	<u>\$ 8,698</u>

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. The expected volatility reflects consideration of the historical volatility in the Company's publicly traded stock during the period the option is granted. The Company believes historical volatility in these instruments is more indicative of expected future volatility than the implied volatility in the price of the Company's common stock. The expected life of each option is estimated using historical data. The risk-free interest rate is based on the U.S. Treasury zero-coupon issue with a remaining term approximating the expected term of the option. The Company uses historical data to estimate forfeiture rates applied to the gross amount of expense determined using the option valuation model.

The weighted-average assumptions used to estimate the fair value of each employee stock option for fiscal 2012 were 47.07% expected volatility, 1.47% risk-free interest rate, 5.0 years expected option life, and 0.00% dividend yield. There were no grants of stock options in fiscal 2014 and 2013.

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

***Stock Incentive Plan***

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

Options granted to officers, non-employee directors and other key employees generally vest over a three to four year period and generally expire seven to ten years from the date of grant. Stock options are granted at a price equal to the fair market value of the common stock on the date of grant. Key employees are eligible to receive a grant of stock options annually with the number of options determined by the employee's performance level.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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**Stock Options**

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

	April 30,					
	2014		2013		2012	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(in thousands, except per share data)					
Outstanding, beginning of year . . . . .	1,100	\$14.72	1,492	\$14.00	1,833	\$13.78
Granted . . . . .	—	\$ —	—	\$ —	48	\$22.71
Exercised . . . . .	(655)	\$13.88	(238)	\$ 9.32	(235)	\$12.76
Forfeited/expired. . . . .	(49)	\$13.42	(154)	\$16.87	(154)	\$15.63
Outstanding, end of year . . . . .	<u>396</u>	\$16.23	<u>1,100</u>	\$14.72	<u>1,492</u>	\$14.00
Exercisable, end of year . . . . .	<u>337</u>	\$16.11	<u>864</u>	\$15.01	<u>1,061</u>	\$14.33

As of April 30, 2014, the aggregate intrinsic value of options outstanding and options exercisable were \$5.1 million and \$4.4 million, respectively.

As of April 30, 2014, there was \$0.2 million of total unrecognized compensation cost related to non-vested awards of stock options that will be recognized within the next year.

Outstanding stock options:

	April 30, 2014					
	Options Outstanding			Options Exercisable		
	Shares	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Shares	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price
	(in thousands, except per share data)					
\$ 9.75 — \$ 13.90 . . . . .	159	2.9	\$12.49	122	2.8	\$12.05
\$13.91 — \$ 17.97 . . . . .	111	1.8	\$16.68	109	1.7	\$16.69
\$17.98 — \$ 19.37 . . . . .	63	0.4	\$19.24	63	0.4	\$19.24
\$19.38 — \$ 24.08 . . . . .	63	3.2	\$21.95	43	2.7	\$21.59
	<u>396</u>	2.2	\$16.23	<u>337</u>	2.0	\$16.11

Additional information pertaining to stock options:

	Year Ended April 30,		
	2014	2013	2012
	(in thousands, except per share data)		
Weighted-average fair value per share of stock options granted . . . . .	\$ —	\$ —	\$ 9.61
Total fair value of stock options vested . . . . .	\$ 984	\$1,001	\$1,065
Total intrinsic value of stock options exercised . . . . .	\$6,108	\$1,547	\$1,485

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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***Restricted Stock***

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

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

Performance-based restricted stock units vest after three years depending upon the Company meeting certain objectives that are set at the time the restricted stock unit is issued. Performance-based restricted stock units are granted at a price equal to the fair value, which is determined based on the closing price of the Company's common stock on the grant date. The Company recognizes compensation expense for performance-based restricted stock units on a straight-line basis over the vesting period. At the end of each reporting period, the Company estimates the number of restricted stock units expected to vest, based on the probability that certain performance objectives will be met, exceeded, or fall below target levels, and takes into account these estimates when calculating the expense for the period.

Restricted stock activity is summarized below:

	April 30,					
	2014		2013		2012	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
	(in thousands, except per share data)					
Non-vested, beginning of year . . . . .	1,810	\$16.38	1,781	\$16.76	2,007	\$15.16
Granted . . . . .	809	\$21.32	889	\$13.93	687	\$21.46
Vested . . . . .	(535)	\$14.54	(780)	\$14.99	(794)	\$16.96
Forfeited/expired. . . . .	(204)	\$17.19	(80)	\$16.43	(119)	\$18.19
Non-vested, end of year . . . . .	<u>1,880</u>	<u>\$18.95</u>	<u>1,810</u>	<u>\$16.38</u>	<u>1,781</u>	<u>\$16.76</u>

As of April 30, 2014, there were 0.3 million shares and 0.2 million shares outstanding relating to market-based and performance-based restricted stock units, respectively, with total unrecognized compensation totaling \$2.1 million and \$4.3 million, respectively.

As of April 30, 2014, there was \$22.2 million of total unrecognized compensation cost related to all non-vested awards of restricted stock, which is expected to be recognized over a weighted-average period of 2.3 years. During fiscal 2014 and fiscal 2013, 112,792 shares and 197,456 shares of restricted stock totaling



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\$2.2 million and \$2.8 million, respectively, were repurchased by the Company, at the option of the employee, to pay for taxes related to vesting of restricted stock.

***Employee Stock Purchase Plan***

The Company has an ESPP that, in accordance with Section 423 of the Internal Revenue Code, allows eligible employees to authorize payroll deductions of up to 15% of their salary, or \$25,000 annually, to purchase shares of the Company's common stock at 85% of the fair market price of the common stock on the last day of the enrollment period. At the Company's 2011 Annual Meeting of Stockholders, held on September 28, 2011, the Company's stockholders approved an amendment and restatement of the ESPP, which among other things, increased the maximum number of shares that may be issued under the ESPP from 1.5 million shares to 3.0 million shares. During fiscal 2012, employees purchased 76,909 shares at \$18.69 per share. The ESPP was suspended during the second half of fiscal 2012 and as a result, no shares were purchased during fiscal 2014, 2013 or the second half of fiscal 2012. At April 30, 2014, the ESPP had approximately 1.6 million shares remaining available for future issuance.

***Common Stock***

During fiscal 2014, 2013 and 2012, the Company issued 654,458 shares, 237,856 shares and 228,835 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of \$8.8 million, \$2.1 million and \$2.9 million, respectively.

No shares were repurchased during fiscal 2014, 2013 and 2012, other than to satisfy minimum tax withholding requirements upon the vesting of restricted stock as described above.

**5. Marketable Securities**

As of April 30, 2014, marketable securities consisted of the following:

	Trading (1)(2)	Available-for- Sale (2)	Total
	(in thousands)		
Mutual funds . . . . .	\$116,207	\$ —	\$116,207
Corporate bonds . . . . .	—	18,352	18,352
Total . . . . .	116,207	18,352	134,559
Less: current portion of marketable securities . . . . .	(4,510)	(5,056)	(9,566)
Non-current marketable securities . . . . .	\$111,697	\$13,296	\$124,993

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

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

- (1) These investments are held in trust for settlement of the Company's vested and unvested obligations of \$117.6 million and \$99.2 million as of April 30, 2014 and 2013, respectively, under the ECAP (see Note 6 — *Deferred Compensation and Retirement Plans*). During fiscal 2014, 2013 and 2012, the fair value of the investments increased; therefore, the Company recognized income of \$9.5 million, \$7.6 million and \$1.0 million, respectively, which are recorded in other income (loss).
- (2) The Company's financial assets measured at fair value on a recurring basis include trading securities classified as Level 1 and available-for-sale securities classified as Level 2. As of April 30, 2014 and 2013, the Company had no investments classified as Level 3.

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

	<u>April 30, 2014</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses (1)</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Corporate bonds . . . . .	<u>\$18,325</u>	<u>\$31</u>	<u>\$(4)</u>	<u>\$18,352</u>
	<u>April 30, 2013</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses (1)</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Corporate bonds . . . . .	\$42,033	\$92	\$(14)	\$42,111
U.S. Treasury and agency securities . . . . .	<u>1,802</u>	<u>2</u>	<u>—</u>	<u>1,804</u>
Total . . . . .	<u>\$43,835</u>	<u>\$94</u>	<u>\$(14)</u>	<u>\$43,915</u>

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

Investments in marketable securities classified as available-for-sale securities are made based on the Company's investment policy, which restricts the types of investments that can be made. As of April 30, 2014 and 2013, marketable securities classified as available-for-sale consist of corporate bonds and as of April 30, 2013 also includes U.S. Treasury and agency securities, all for which market prices for similar assets are readily

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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available. As of April 30, 2014, available-for-sale marketable securities have remaining maturities ranging from one month to 1.7 years. During the year ended April 30, 2014 and 2013, the Company received \$33.3 million and \$38.1 million, respectively, in proceeds from sales/maturities of available-for-sale marketable securities. Investments in marketable securities classified as trading are based upon investment selections the employee elects from a pre-determined set of securities in the ECAP and the Company invests in marketable securities to mirror these elections. As of April 30, 2014 and 2013, the Company's investments in marketable securities classified as trading consist of mutual funds for which market prices are readily available.

As of April 30, 2014 and 2013, the Company's marketable securities classified as trading were \$116.2 million (net of gross unrealized gains of \$9.2 million and \$0.7 million of gross unrealized losses) and \$98.0 million (net of gross unrealized gains of \$3.1 million and no gross unrealized losses), respectively.

**6. Deferred Compensation and Retirement Plans**

The Company has several deferred compensation and retirement plans for eligible consultants and vice-presidents that provide defined benefits to participants based on the deferral of current compensation or contributions made by the Company subject to vesting and retirement or termination provisions.

The total benefit obligations for these plans were as follows:

	<b>Year Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Deferred compensation plans .....	\$ 82,153	\$ 85,562
Pension plan .....	4,424	4,536
International retirement plans .....	3,727	3,646
Executive Capital Accumulation Plan .....	89,308	75,913
Total benefit obligations .....	179,612	169,657
Less: current portion of benefit obligation .....	(10,377)	(9,951)
Non-current benefit obligation .....	<u>\$169,235</u>	<u>\$159,706</u>

***Deferred Compensation Plans***

The Enhanced Wealth Accumulation Plan ("EWAP") was established in fiscal 1994, which replaced the Wealth Accumulation Plan ("WAP"). Certain vice presidents elected to participate in a "deferral unit" that required the participant to contribute a portion of their compensation for an eight year period, or in some cases, make an after tax contribution, in return for defined benefit payments from the Company over a fifteen year period generally at retirement age of 65 or later. Participants were able to acquire additional "deferral units" every five years. Vice presidents who did not choose to roll over their WAP units into the EWAP continue to be covered under the earlier version in which participants generally vest and commence receipt of benefit payments at retirement age of 65. In June 2003, the Company amended the EWAP and WAP plans, so as not to allow new participants or the purchase of additional deferral units by existing participants.

The Company also maintains a Senior Executive Incentive Plan ("SEIP") for participants approved by the Board. Generally, to be eligible, the vice president must be participating in the EWAP. Participation in the SEIP required the participant to contribute a portion of their compensation during a four-year period, or in some cases make an after tax contribution, in return for a defined benefit paid by the Company generally over a fifteen year

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period after ten years of participation in the plan or such later date as elected by the participant. In June 2003, the Company amended the SEIP plan, so as not to allow new participants or the purchase of additional deferral units by existing participants.

***Pension Plan***

The Company has a defined benefit pension plan, referred to as the Worldwide Executive Benefit (“WEB”), covering certain executives in the U.S. and foreign countries. The WEB is designed to integrate with government sponsored and local benefits and provide a monthly benefit to vice presidents upon retirement from the Company. Each year a plan participant accrued and was fully vested in one-twentieth of the targeted benefits expressed as a percentage set by the Company for that year. Upon retirement, a participant receives a monthly benefit payment equal to the sum of the percentages accrued over such participant’s term of employment, up to a maximum of 20 years, multiplied by the participant’s highest average monthly salary during the 36 consecutive months in the final 72 months of active full-time employment through June 2003. In June 2003, the Company froze the WEB, so as to not allow new participants, future accruals and future salary increases.

***Deferred Compensation Plan***

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

	<u>Year Ended April 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)		
<b>Change in benefit obligation:</b>			
Benefit obligation, beginning of year . . . . .	\$85,562	\$78,479	\$70,319
Interest cost . . . . .	2,566	2,868	3,346
Actuarial (gain) loss . . . . .	(294)	9,420	9,885
Benefits paid . . . . .	<u>(5,681)</u>	<u>(5,205)</u>	<u>(5,071)</u>
Benefit obligation, end of year . . . . .	82,153	85,562	78,479
Less: current portion of benefit obligation . . . . .	<u>(5,593)</u>	<u>(5,182)</u>	<u>(4,959)</u>
Non-current benefit obligation . . . . .	<u>\$76,560</u>	<u>\$80,380</u>	<u>\$73,520</u>

The components of net periodic benefits costs are as follows:

	<u>Year Ended April 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)		
Interest cost . . . . .	\$2,566	\$2,868	\$3,346
Amortization of actuarial loss . . . . .	<u>3,111</u>	<u>2,357</u>	<u>1,374</u>
Net periodic benefit cost . . . . .	<u>\$5,677</u>	<u>\$5,225</u>	<u>\$4,720</u>

The weighted-average assumptions used in calculating the benefit obligations were as follows:

	<u>Year Ended April 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rate, beginning of year . . . . .	3.12%	3.79%	4.94%
Discount rate, end of year . . . . .	3.60%	3.12%	3.79%
Rate of compensation increase . . . . .	0.00%	0.00%	0.00%

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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***Pension Plan***

The following tables reconcile the benefit obligation for the pension plan:

	Year Ended April 30,		
	2014	2013	2012
	(in thousands)		
<b>Change in benefit obligation:</b>			
Benefit obligation, beginning of year . . . . .	\$4,536	\$4,214	\$3,952
Interest cost . . . . .	137	154	189
Actuarial loss . . . . .	92	426	289
Benefits paid . . . . .	(341)	(258)	(216)
Benefit obligation, end of year . . . . .	4,424	4,536	4,214
Less: current portion of benefit obligation . . . . .	(274)	(232)	(212)
Non-current benefit obligation . . . . .	<u>\$4,150</u>	<u>\$4,304</u>	<u>\$4,002</u>

The components of net periodic benefits costs are as follows:

	Year Ended April 30,		
	2014	2013	2012
	(in thousands)		
Interest cost . . . . .	\$137	\$154	\$189
Amortization of actuarial loss . . . . .	8	18	47
Net periodic benefit cost . . . . .	<u>\$145</u>	<u>\$172</u>	<u>\$236</u>

The weighted-average assumptions used in calculating the benefit obligations were as follows:

	Year Ended April 30,		
	2014	2013	2012
Discount rate, beginning of year . . . . .	3.12%	3.79%	4.94%
Discount rate, end of year . . . . .	3.60%	3.12%	3.79%
Rate of compensation increase . . . . .	0.00%	0.00%	0.00%

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years as follows:

Year Ending April 30,	Deferred Compensation Plans	Pension Benefits
	(in thousands)	
2015 . . . . .	\$ 6,766	\$ 326
2016 . . . . .	6,987	327
2017 . . . . .	6,780	332
2018 . . . . .	6,461	325
2019 . . . . .	6,192	312
2020-2024 . . . . .	31,742	1,386

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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During fiscal 2015 the Company expects to recognize \$3.1 million in net periodic benefit expense from their deferred compensation and pension plans. This cost will be transferred from accumulated other comprehensive income through the amortization of actuarial losses in the consolidated statement income.

***International Retirement Plans***

The Company also maintains various retirement plans and other miscellaneous deferred compensation arrangements in eight foreign jurisdictions. The aggregate of the long-term benefit obligation accrued at April 30, 2014 and 2013 is \$3.7 million for 267 participants and \$3.6 million for 221 participants, respectively. The Company's contribution to these plans was \$0.5 million and \$1.1 million in fiscal 2014 and 2013, respectively.

***Executive Capital Accumulation Plan***

The Company's Executive Capital Accumulation Plan and similar plans in Asia Pacific and Canada (collectively "ECAP"), are intended to provide certain employees an opportunity to defer salary and/or bonus on a pre-tax basis or make an after-tax contribution. In addition, the Company, as part of its compensation philosophy, makes discretionary contributions into the ECAP and such contributions may be granted to key employees annually based on the employee's performance. Certain key management may also receive Company ECAP contributions upon commencement of employment. The Company amortizes these contributions on a straight-line basis over the service period, generally a four year period. Participants have the ability to allocate their deferrals among a number of investment options and may receive their benefits at termination, retirement or "in service" either in a lump sum or in quarterly installments over five, ten or fifteen years. The ECAP amounts that are expected to be paid to employees over the next 12 months are classified as a current liability included in compensation and benefits payable on the accompanying balance sheet.

The Company made contributions to the ECAP during fiscal 2014, 2013 and 2012, of \$17.2 million, \$20.0 million and \$15.8 million, respectively.

The ECAP is accounted for whereby the changes in the fair value of the vested amounts owed to the participants are adjusted with a corresponding charge (or credit) to compensation and benefits costs. During fiscal 2014, 2013 and 2012, the deferred compensation liability increased; therefore, the Company recognized compensation expense of \$8.9 million, \$6.3 million and \$0.9 million, respectively. Offsetting these increases in compensation and benefits expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation plan liabilities) of \$9.5 million and \$7.6 million in fiscal 2014 and 2013, respectively, recorded in other income (loss), net on the consolidated statements of income.



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Changes in the ECAP liability were as follows:

	<u>Year Ended April 30,</u>	
	<u>2014</u>	<u>2013</u>
	(in thousands)	
Balance, beginning of year .....	\$75,913	\$ 71,134
Employee contributions .....	2,748	1,943
Amortization of employer contributions .....	11,467	9,010
Gain on investment .....	8,884	6,281
Employee distributions .....	(9,044)	(12,244)
Exchange rate fluctuations .....	(660)	(211)
Balance, end of year .....	89,308	75,913
Less: current portion .....	(4,510)	(4,537)
Non-current portion, end of year .....	<u>\$84,798</u>	<u>\$ 71,376</u>

As of April 30, 2014 and 2013, the unamortized portion of the Company contributions to the ECAP was \$28.3 million and \$23.3 million, respectively.

***Defined Contribution Plan***

The Company has a defined contribution plan (“401(k) plan”) for eligible employees. Participants may contribute up to 50% of their base compensation as defined in the plan agreement. In addition, the Company has the option to make matching contributions and tends to make the contributions related to the current fiscal year in the upcoming year. The Company made a \$1.2 million matching contribution in fiscal 2014 related to contributions made by employees in fiscal 2013 and made no contributions in fiscal 2013 and 2012.

***Company Owned Life Insurance***

The Company purchased COLI contracts insuring employees eligible to participate in the deferred compensation and pension plans as a means of funding benefits under such plans. The gross CSV of these contracts of \$167.2 million and \$159.2 million is offset by outstanding policy loans of \$72.9 million and \$73.3 million in the accompanying consolidated balance sheets as of April 30, 2014 and 2013, respectively. Total death benefits payable, net of loans under COLI contracts, were \$214.2 million and \$212.7 million at April 30, 2014 and 2013, respectively. Management intends to use the future death benefits from these insurance contracts to fund the deferred compensation and pension arrangements; however, there may not be a direct correlation between the timing of the future cash receipts and disbursements under these arrangements. The CSV value of the underlying COLI investments increased by \$8.2 million and \$6.5 million during the year ended April 30, 2014 and 2013, respectively, recorded as a decrease in compensation and benefits expense. In addition, certain policies are held in trusts to provide additional benefit security for the deferred compensation and pension plans, excluding the WEB. As of April 30, 2014, COLI contracts with a net CSV of \$68.1 million and death benefits payable, net of loans, of \$122.6 million were held in trust for these purposes.

**7. Restructuring Charges, Net**

The Company continued the implementation of the fiscal 2013 restructuring plan during fiscal 2014 in order to integrate PDI by consolidating and eliminating certain redundant office space around the world and by

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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continuing to consolidate certain overhead functions. This resulted in restructuring charges of \$3.7 million against operations in fiscal 2014, of which \$0.8 million relates to severance and \$2.9 million relates to consolidation of premises.

During fiscal 2013, the Company implemented restructuring plans in order to align its cost structure to anticipated revenue levels and to integrate PDI in order to eliminate redundant positions and consolidate premises. This resulted in restructuring charges of \$22.8 million against operations during fiscal 2013 of which \$16.3 million relates to severance and \$6.5 million relates to consolidation of premises.

During fiscal 2012, the Company increased previously recorded restructuring charges resulting in restructuring costs of \$0.9 million. The increase in restructuring expense primarily relates to the inability to sublease space, which was included in the original estimate.

Changes in the restructuring liability are as follows:

	<u>Severance</u>	<u>Facilities</u>	<u>Total</u>
	(in thousands)		
Liability as of April 30, 2012 .....	\$ 38	\$ 2,732	\$ 2,770
Restructuring charges, net (1) .....	16,369	6,488	22,857
Reductions for cash payments, net of recoveries .....	(11,561)	(2,437)	(13,998)
Exchange rate fluctuations .....	(27)	(54)	(81)
Liability as of April 30, 2013 .....	4,819	6,729	11,548
Restructuring charges, net .....	823	2,859	3,682
Reductions for cash payments .....	(5,884)	(6,821)	(12,705)
Exchange rate fluctuations .....	242	46	288
Liability as of April 30, 2014 .....	<u>\$ —</u>	<u>\$ 2,813</u>	<u>\$ 2,813</u>

(1) During fiscal 2013, the Company recovered \$1.0 million from a legal settlement (related to premises) attributable to a previous restructuring action.

As of April 30, 2014 and 2013, the restructuring liability is included in the current portion of other accrued liabilities on the consolidated balance sheets, except for \$0.7 million and \$2.4 million, respectively, of facilities costs which primarily relate to commitments under operating leases, net of sublease income, which are included in other long-term liabilities and will be paid over the next four years.

The restructuring liability by segment is summarized below:

	<u>April 30, 2014</u>		
	<u>Severance</u>	<u>Facilities</u>	<u>Total</u>
	(in thousands)		
<b>Executive Recruitment</b>			
North America .....	\$—	\$ 193	\$ 193
Europe, Middle East and Africa (“EMEA”) .....	—	379	379
Total Executive Recruitment .....	—	572	572
<b>LTC</b> .....	—	1,587	1,587
<b>Futurestep</b> .....	—	654	654
Liability as of April 30, 2014 .....	<u>\$—</u>	<u>\$2,813</u>	<u>\$2,813</u>

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

**8. Income Taxes**

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

The provision (benefit) for domestic and foreign income taxes was as follows:

	Year Ended April 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)		
<b>Current income taxes:</b>			
Federal .....	\$ 6,982	\$ 4,100	\$ 4,173
State .....	1,939	1,237	1,609
Foreign .....	<u>15,502</u>	<u>8,759</u>	<u>12,670</u>
Current provision for income taxes .....	24,423	14,096	18,452
<b>Deferred income taxes:</b>			
Federal .....	5,094	(423)	7,281
State .....	177	1,895	3,508
Foreign .....	<u>(1,202)</u>	<u>1,069</u>	<u>(890)</u>
Deferred provision for income taxes .....	<u>4,069</u>	<u>2,541</u>	<u>9,899</u>
Total provision for income taxes .....	<u>\$28,492</u>	<u>\$16,637</u>	<u>\$28,351</u>

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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The domestic and foreign components of income from continuing operations before domestic and foreign income and other taxes and equity in earnings of unconsolidated subsidiaries were as follows:

	Year Ended April 30,		
	2014	2013	2012
	(in thousands)		
Domestic .....	\$42,411	\$15,915	\$42,375
Foreign .....	56,603	31,905	38,429
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries .....	<u>\$99,014</u>	<u>\$47,820</u>	<u>\$80,804</u>

The reconciliation of the statutory federal income tax rate to the effective consolidated tax rate is as follows:

	Year Ended April 30,		
	2014	2013	2012
U.S. federal statutory income tax rate .....	35.0%	35.0%	35.0%
Foreign source income, net of credits generated .....	2.0	0.6	3.0
Foreign tax rates differential .....	(4.7)	(3.7)	(2.9)
COLI increase, net .....	(2.9)	(4.8)	(2.7)
Conclusion of U.S. federal tax audit .....	(2.7)	—	—
Adjustment to repatriation plan .....	(0.6)	(3.2)	(1.7)
State income taxes, net of federal benefit .....	1.5	5.7	4.0
Adjustments for valuation allowance .....	(1.4)	(0.4)	(0.7)
Non-deductible business acquisition transaction costs .....	—	1.3	—
Expense disallowances .....	0.6	1.1	0.8
Change in uncertain tax positions .....	1.1	1.9	—
Other .....	0.9	1.3	0.3
Effective income tax rate .....	<u>28.8%</u>	<u>34.8%</u>	<u>35.1%</u>

The decrease in the effective tax rate in fiscal 2014 is due to a tax benefit arising in connection with the conclusion of the IRS examination of the Company's U.S. federal income tax returns for the tax years ended April 30, 2010 and 2011, a higher percentage of taxable income arising in jurisdictions with lower statutory tax rates and the reversal of valuation allowance previously recorded against deferred tax assets, including net operating losses, of certain foreign subsidiaries that have returned to profitability and are now more-likely-than-not to realize those deferred tax assets.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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Components of deferred tax assets and liabilities are as follows:

	April 30,	
	2014	2013
	(in thousands)	
<b>Deferred tax assets:</b>		
Deferred compensation .....	\$ 66,359	\$ 64,791
Loss and credit carryforwards .....	35,177	42,984
Reserves and accruals .....	8,706	7,613
Deferred rent .....	5,575	6,366
Deferred revenue .....	1,672	1,646
Allowance for doubtful accounts .....	1,536	1,804
Other .....	6,531	4,867
Gross deferred tax assets .....	125,556	130,071
<b>Deferred tax liabilities:</b>		
Intangibles .....	(21,507)	(21,560)
Property and equipment .....	(6,277)	(6,747)
Prepaid expenses .....	(5,600)	(4,184)
Other .....	(5,678)	(3,135)
Gross deferred tax liabilities .....	(39,062)	(35,626)
Valuation allowances .....	(26,969)	(27,731)
Net deferred tax asset .....	\$ 59,525	\$ 66,714

Changes to the valuation allowance balances are recorded through the provision for income taxes in the respective year.

The deferred tax amounts have been classified in the consolidated balance sheets as follows:

	April 30,	
	2014	2013
	(in thousands)	
<b>Current:</b>		
Deferred tax assets .....	\$ 15,591	\$ 13,791
Deferred tax liabilities .....	(10,813)	(10,220)
Valuation allowance .....	(292)	(60)
Current deferred tax asset .....	4,486	3,511
<b>Non-current:</b>		
Deferred tax asset .....	109,965	116,280
Deferred tax liabilities .....	(28,249)	(25,406)
Valuation allowance .....	(26,677)	(27,671)
Non-current deferred tax asset, net .....	55,039	63,203
Net deferred tax assets .....	\$ 59,525	\$ 66,714

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Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management believes uncertainty exists regarding the realizability of certain operating losses and has, therefore, established a valuation allowance for this portion of the deferred tax asset. Realization of the deferred income tax asset is dependent on the Company generating sufficient taxable income of the appropriate nature in future years. Although realization is not assured, management believes that it is more likely than not that the net deferred income tax assets will be realized.

As of April 30, 2014 and 2013, the Company has U.S. federal net operating loss carryforwards of \$12.2 million and \$20.4 million, respectively, from the acquisition of PDI, which will begin to expire in 2028. The utilization of these losses is subject to an annual limitation as defined under Section 382 of the Internal Revenue Code. The Company has state net operating loss carryforwards of \$30.2 million, which will begin to expire in 2015. The Company also has foreign net operating loss carryforwards of \$98.2 million, which will begin to expire in 2015.

The Company has a plan to distribute a portion of the cash held in foreign locations to the United States. These planned distributions will not give rise to any additional taxes. Other than these amounts, the Company has not provided for U.S. taxes or foreign withholding taxes on approximately \$203.8 million of undistributed earnings of its foreign subsidiaries as such earnings are intended to be reinvested indefinitely. If a distribution of these earnings were to be made, the Company might be subject to both foreign withholding taxes and U.S. income taxes, net of any allowable foreign tax credits or deductions. An estimate of these taxes, however, is not practicable.

The Company or one of its subsidiaries files federal and state income tax returns in the United States as well as foreign jurisdictions. These income tax returns are subject to audit by the Internal Revenue Service (the "IRS") and various state and foreign tax authorities. In January 2014, the IRS finalized an examination of the Company's U.S. federal income tax returns for the tax years ended April 30, 2011 and 2010. As a result of the conclusion of this audit, the Company recorded a financial statement benefit of \$2.6 million primarily due to favorable adjustments to depreciable tax basis on fixed assets and foreign tax credit utilization. In June 2014, the IRS commenced an examination of the Company's fiscal year 2013 U.S. federal income tax return. The Company's income tax returns are not otherwise under examination in any material jurisdiction. The statute of limitations varies by jurisdiction in which the Company operates. With few exceptions, however, the Company's tax returns for years prior to fiscal year 2009 are no longer open to examination by tax authorities (including U.S. federal, state and foreign).

Unrecognized tax benefits are the differences between the amount of benefits of tax positions taken, or expected to be taken, on a tax return and the amount of benefits recognized for financial reporting purposes. As of April 30, 2014, the Company had a liability of \$2.7 million for unrecognized tax benefits. A reconciliation of the beginning and ending balances of the unrecognized tax benefits is as follows:

	<b>Year Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	(in thousands)		
Unrecognized tax benefits, beginning of year . . . . .	\$ 3,400	\$ —	\$—
Settlement with tax authority . . . . .	(1,946)	—	—
Additions based on tax positions related to the current year . . . . .	279	1,454	—
Additions based on tax positions related to prior years . . . . .	968	1,946	—
Unrecognized tax benefits, end of year . . . . .	<u>\$ 2,701</u>	<u>\$3,400</u>	<u>\$—</u>

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The liability for unrecognized tax benefits is included in income taxes payable in the consolidated balance sheets. The full amount of unrecognized tax benefits would impact the effective tax rate if recognized. In the next twelve months, it is reasonably possible that the Company's unrecognized tax benefits could change due to resolution of certain tax matters, which could include payments on those tax matters. These resolutions and payments could reduce the Company's unrecognized tax benefits balance by approximately \$1.0 million.

The Company classifies interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. The Company had approximately \$0.7 million in accrued interest and penalties related to unrecognized tax benefits as of April 30, 2014 and none as of April 30, 2013. The Company accrued approximately \$0.1 million of interest related to unrecognized tax benefits in fiscal 2014 and none as of April 30, 2013.

**9. Property and Equipment**

Property and equipment include the following:

	April 30,	
	2014	2013
	(in thousands)	
Computer equipment and software (1) . . . . .	\$ 113,941	\$ 98,538
Leasehold improvements . . . . .	43,994	41,884
Furniture and fixtures . . . . .	32,727	31,805
Automobiles . . . . .	1,707	1,725
	192,369	173,952
Less: accumulated depreciation and amortization . . . . .	(131,935)	(120,324)
Property and equipment, net . . . . .	\$ 60,434	\$ 53,628

(1) Depreciation expense for capitalized software was \$6.0 million, \$4.0 million and \$2.5 million during fiscal 2014, 2013 and 2012, respectively. The net book value of the Company's computer software costs included in property and equipment, net was \$26.4 million and \$19.1 million as of April 30, 2014 and 2013, respectively.

**10. Long-Term Debt**

The Company's senior unsecured revolving Credit Agreement dated January 18, 2013 (the "Credit Agreement"), provides for an aggregate availability up to \$75.0 million with an option to increase the facility by an additional \$50.0 million, subject to lender consent, and a \$15.0 million sub-limit for letters of credit. The Credit Agreement matures on January 18, 2018 and replaces the senior secured Loan Agreement dated as of March 14, 2011 (the "Previous Credit Agreement"), which was terminated on the same date the Credit Agreement was entered into. Borrowings under the Credit Agreement bear interest, at the election of the Company, at the London Interbank Offered Rate ("LIBOR") plus the applicable margin or the base rate plus the applicable margin. The base rate is the highest of (i) the published prime rate, (ii) the federal funds rate plus 1.50%, or (iii) one month LIBOR plus 1.50%. The applicable margin is based on a percentage per annum determined in accordance with a specified pricing grid based on the total funded debt to adjusted EBITDA ratio. For LIBOR loans, the applicable margin will range from 0.50% to 1.50% per annum, while for base rate loans the applicable margin will range from 0.00% to 0.25% per annum. The Company is required to pay a quarterly commitment fee of 0.25% to 0.35% on the facility's unused commitments based on the Company's funded debt



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to adjusted EBITDA ratio. The financial covenants include a maximum consolidated funded debt to adjusted EBITDA ratio and a minimum adjusted EBITDA, each as defined in the Credit Agreement. As of April 30, 2014, the Company is in compliance with its financial covenants. In addition, there is a domestic liquidity requirement that the Company maintain \$50.0 million in unrestricted cash and/or marketable securities (excluding any marketable securities that are held in trust for the settlement of the Company's obligation under certain deferred compensation plans) as a condition to consummating permitted acquisitions, paying dividends to our shareholders and share repurchases of our common stock. We are permitted to pay up to \$50.0 million in dividends in any fiscal year (subject to the satisfaction of certain conditions), which amount is further limited by any shares repurchased and any consideration paid with respect to acquisitions during such fiscal year.

As of April 30, 2014 and 2013, the Company had no borrowings under its long-term debt arrangements. At April 30, 2014 and 2013, there was \$2.8 million and \$2.7 million, respectively, of standby letters of credit issued under its long-term debt arrangements. As of April 30, 2013, under its previous senior secured credit agreement, the Company was required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that remain outstanding. During fiscal 2014, the Company transferred the standby letters of credit associated with certain lease for premises from its senior secured credit agreement to its current senior unsecured revolving credit agreement and as a result the Company has no restricted cash balance as of April 30, 2014 compared to \$2.9 million at April 30, 2013. The Company has a total of \$1.5 million and \$1.4 million of standby letters of credits with other financial institutions as of April 30, 2014 and 2013, respectively.

The Company has outstanding borrowings against the CSV of COLI contracts of \$72.9 million and \$73.3 million at April 30, 2014 and 2013, respectively. CSV reflected in the accompanying balance sheet is net of the outstanding borrowings, which are secured by the CSV of the life insurance policies. Principal payments are not scheduled and interest is payable at least annually at various fixed and variable rates ranging from 4.76% to 8.00%.

## **11. Business Segments**

The Company currently operates in three global businesses: Executive Recruitment, LTC and Futurestep. The Executive Recruitment segment focuses on recruiting Board of Director and C-level positions, in addition to research-based interviewing and onboarding solutions, for clients predominantly in the consumer, financial services, industrial, life sciences/healthcare and technology industries. LTC provides a comprehensive blend of leadership and talent management solutions including both consulting services and product offerings. Service and product offerings in this segment include: Talent Strategy and Organizational Alignment, Succession Management, Board and CEO Services, Leadership Development and Workforce Performance, Inclusion and Diversity, all underpinned by a comprehensive array of world-leading IP, products and tools. Futurestep is a global industry leader in high impact enterprise-wide consulting and recruitment solutions. Its portfolio of services includes RPO, talent acquisition and management consulting services, project-based recruitment, non-executive and other professional recruitment. The Executive Recruitment business segment is managed by geographic regional leaders and LTC and Futurestep worldwide operations are managed by its President and Chief Executive Officer, respectively. The Executive Recruitment geographic regional leaders, the president of LTC and Chief Executive Officer of Futurestep report directly to the Chief Executive Officer of the Company. The Company also operates a Corporate segment to record global expenses of the Company.

The Company evaluates performance and allocates resources based on the Company's chief operating decision maker's ("CODM") review of (1) fee revenue and (2) earnings before interest, taxes, depreciation and amortization ("EBITDA"), which is further adjusted to exclude restructuring charges (net of recoveries) and/or

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integration/acquisition and certain separation costs (“Adjusted EBITDA”). The accounting policies for the reportable segments are the same as those described in the summary of significant accounting policies, except that unusual or infrequent items are excluded from Adjusted EBITDA.

Financial highlights by business segment are as follows:

	Year Ended April 30, 2014								
	Executive Recruitment					LTC	Futurestep	Corporate	Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal				
	(in thousands)								
Fee revenue	\$306,768	\$147,917	\$84,816	\$29,374	\$568,875	\$254,636	\$136,790	\$ —	\$ 960,301
Total revenue	\$321,473	\$152,525	\$87,606	\$29,586	\$591,190	\$262,962	\$141,407	\$ —	\$ 995,559
Net income									\$ 72,691
Other income, net									(9,769)
Interest expense, net									2,363
Equity in earnings of unconsolidated subsidiaries, net									(2,169)
Income tax provision									28,492
Operating income (loss)	\$ 70,256	\$ 23,168	\$17,274	\$ 5,654	\$116,352	\$ 23,847	\$ 13,352	\$(61,943)	\$ 91,608
Depreciation and amortization	3,579	2,727	1,383	323	8,012	12,491	1,797	3,872	26,172
Other income, net	631	632	203	303	1,769	106	583	7,311	9,769
Equity in earnings of unconsolidated subsidiaries, net	383	—	—	—	383	—	—	1,786	2,169
EBITDA	74,849	26,527	18,860	6,280	126,516	36,444	15,732	(48,974)	129,718
Restructuring charges, net	816	460	60	—	1,336	1,149	1,134	63	3,682
Separation costs	—	—	—	—	—	—	—	4,500	4,500
Integration costs	—	—	—	—	—	—	—	394	394
Adjusted EBITDA	\$ 75,665	\$ 26,987	\$18,920	\$ 6,280	\$127,852	\$ 37,593	\$ 16,866	\$(44,017)	\$ 138,294
Identifiable assets (1)	\$295,865	\$157,610	\$83,292	\$25,587	\$562,354	\$255,590	\$111,036	\$304,686	\$1,233,666
Long-lived assets (1)	\$ 18,647	\$ 5,515	\$ 2,978	\$ 1,168	\$ 28,308	\$ 11,976	\$ 2,550	\$ 17,600	\$ 60,434
Goodwill (1)	\$ 52,086	\$ 51,557	\$ 972	\$ —	\$104,615	\$119,350	\$ 33,617	\$ —	\$ 257,582

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

	Year Ended April 30, 2013								
	Executive Recruitment					LTC	Futurestep	Corporate	Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal				
	(in thousands)								
Fee revenue	\$290,317	\$128,807	\$73,221	\$30,134	\$522,479	\$168,115	\$122,237	\$ —	\$ 812,831
Total revenue	\$305,993	\$132,988	\$75,359	\$30,491	\$544,831	\$176,566	\$128,304	\$ —	\$ 849,701
Net income									\$ 33,293
Other income, net									(6,309)
Interest expense, net									2,365
Equity in earnings of unconsolidated subsidiaries, net									(2,110)
Income tax provision									16,637
Operating income (loss)	\$ 58,832	\$ 9,173	\$ 6,973	\$ 5,987	\$ 80,965	\$ 6,424	\$ 10,975	\$ (54,488)	\$ 43,876
Depreciation and amortization	4,726	2,347	1,546	372	8,991	6,012	1,180	2,821	19,004
Other income (loss), net	466	95	200	32	793	(75)	51	5,540	6,309
Equity in earnings of unconsolidated subsidiaries, net	434	—	—	—	434	—	—	1,676	2,110
EBITDA	64,458	11,615	8,719	6,391	91,183	12,361	12,206	(44,451)	71,299
Restructuring charges, net	3,583	3,982	629	—	8,194	10,198	3,527	938	22,857
Integration/acquisition costs	—	—	—	—	—	—	—	3,106	3,106
Separation costs	—	516	—	—	516	—	—	—	516
Adjusted EBITDA	\$ 68,041	\$ 16,113	\$ 9,348	\$ 6,391	\$ 99,893	\$ 22,559	\$ 15,733	\$ (40,407)	\$ 97,778
Identifiable assets (1)	\$209,079	\$148,491	\$72,303	\$23,616	\$453,489	\$248,611	\$ 93,331	\$319,798	\$1,115,229
Long-lived assets (1)	\$ 19,167	\$ 6,312	\$ 2,784	\$ 894	\$ 29,157	\$ 10,383	\$ 2,523	\$ 11,565	\$ 53,628
Goodwill (1)	\$ 54,513	\$ 50,264	\$ 972	\$ —	\$105,749	\$119,090	\$ 32,454	\$ —	\$ 257,293

	Year Ended April 30, 2012								
	Executive Recruitment					LTC	Futurestep	Corporate(2)	Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal				
	(in thousands)								
Fee revenue	\$305,717	\$141,409	\$82,230	\$31,846	\$561,202	\$115,407	\$113,896	\$ —	\$ 790,505
Total revenue	\$323,116	\$146,573	\$84,279	\$32,517	\$586,485	\$120,281	\$119,993	\$ —	\$ 826,759
Net income									\$ 54,303
Other loss, net									271
Interest expense, net									1,791
Equity in earnings of unconsolidated subsidiaries, net									(1,850)
Income tax provision									28,351
Operating income (loss)	\$ 75,580	\$ 13,288	\$11,859	\$ 9,207	\$109,934	\$ 16,360	\$ 8,445	\$ (51,873)	\$ 82,866
Depreciation and amortization	4,624	1,881	1,268	367	8,140	2,613	1,070	2,194	14,017
Other income (loss), net	5	(149)	60	(61)	(145)	146	41	(313)	(271)
Equity in earnings of unconsolidated subsidiaries, net	159	—	—	—	159	—	—	1,691	1,850
EBITDA	80,368	15,020	13,187	9,513	118,088	19,119	9,556	(48,301)	98,462
Restructuring charges, net	(15)	897	—	(99)	783	—	146	—	929
Separation costs	—	—	—	—	—	—	920	999	1,919
Adjusted EBITDA	\$ 80,353	\$ 15,917	\$13,187	\$ 9,414	\$118,871	\$ 19,119	\$ 10,622	\$ (47,302)	\$ 101,310
Identifiable assets (1)	\$171,641	\$140,980	\$76,027	\$22,957	\$411,605	\$ 83,576	\$ 90,560	\$428,948	\$1,014,689
Long-lived assets (1)	\$ 22,288	\$ 7,542	\$ 3,938	\$ 955	\$ 34,723	\$ 2,648	\$ 3,420	\$ 9,017	\$ 49,808
Goodwill (1)	\$ 55,608	\$ 50,664	\$ 972	\$ —	\$107,244	\$ 36,251	\$ 32,843	\$ —	\$ 176,338

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

- (1) As of the end of the fiscal year.
- (2) The Company recorded an adjustment to the fair value of contingent consideration for a prior acquisition of \$2.2 million during the year-ended April 30, 2012.

Fee revenue attributed to an individual customer or country, other than the United States, did not account for more than 10% of the total in fiscal year 2014, 2013 or 2012. Fee revenue classified by country in which the Company derives revenues are as follows:

	Year Ended April 30,		
	2014	2013	2012
		(in thousands)	
United States .....	\$507,280	\$416,987	\$383,955
Other countries .....	453,021	395,844	406,550
Total fee revenue .....	\$960,301	\$812,831	\$790,505

Long-lived assets, excluding financial instruments and tax assets, classified by controlling countries over 10% of the total are as follows:

	Year Ended April 30,		
	2014	2013	2012
		(in thousands)	
United States (1) .....	\$47,411	\$40,200	\$33,559
Other countries .....	13,023	13,428	16,249
Total long-lived assets .....	\$60,434	\$53,628	\$49,808

- (1) Includes Corporate long-lived assets

**12. Acquisitions**

Following is a summary of acquisitions the Company completed during the periods indicated (no acquisitions were completed in fiscal 2014):

	Year Ended April 30,	
	2013 (1) (2)	2012 (3)
	(in thousands)	
Assets acquired .....	\$ 32,784	\$137
Intangibles acquired .....	42,800	—
Liabilities acquired .....	31,506	38
Net assets acquired .....	44,078	99
Purchase price .....	126,917	442
Goodwill .....	\$ 82,839	\$343
Acquisition costs .....	\$ 2,710	\$—
Goodwill by segment:		
Executive Recruitment .....	\$ —	\$—
LTC .....	82,839	—
Futurestep .....	—	343
Goodwill .....	\$ 82,839	\$343

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

- (1) On December 31, 2012, the Company acquired all outstanding shares of Minneapolis-based PDI, a leading, globally-recognized provider of leadership assessment and development solutions, for \$92.5 million, net of cash acquired, which includes \$14.9 million in contingent consideration, for the achievement of certain post-closing synergies. During fiscal 2014, the Company paid \$15.0 million (includes the interest accreted since December 31, 2012) in contingent consideration to the selling stockholders of PDI as a result of the achievement of certain pre-determined goals associated with expense synergies. PDI has been in business for over 45 years and operates in more than 20 global locations. The acquisition strengthens and expands the Company's talent management offerings through adding complementary product and service offerings and rich intellectual property. Actual results of operations of PDI are included in the Company's consolidated financial statements from December 31, 2012, the effective date of the acquisition, and include \$95.6 million and \$28.2 million in fee revenue during fiscal 2014 and 2013, respectively.
- (2) On September 1, 2012, the Company acquired all outstanding membership interests of Global Novations, LLC, ("Global Novations") a leading provider of diversity and inclusion and leadership development solutions, for \$34.5 million in cash, net of cash acquired. Global Novations has more than 150 offerings designed to develop leaders, enable high-performing cultures and deliver business outcomes for its clients. Key diversity and inclusion and leadership offerings include consulting, training and education and e-learning. Global Novations has more than 30 years of experience and has served clients in more than 40 countries, including more than half of the Fortune 100. The acquisition strengthens and expands the Company's talent management offerings through adding complementary product and service offerings and rich intellectual property. Actual results of operations of Global Novations are included in the Company's consolidated financial statements from September 1, 2012, the effective date of the acquisition, and include \$26.0 million and \$17.4 million in fee revenue during fiscal 2014 and 2013, respectively.
- (3) On March 1, 2012, the Company purchased Avature USA Recruiting Business and Avature Argentina Recruiting Business. Avature USA Recruiting Business and Avature Argentina Recruiting Business are engaged in providing back-office functions including, database candidate searching, data processing, filling forms, call-center activities, and other administrative functions. As a result of these acquisitions, the Company obtained the rights to certain client contracts from Avature USA, license agreements to use the Customer Relationship Management software, employees of Avature Argentina engaged in the recruiting business and the office lease and equipment in Argentina used in the recruiting business. Actual results of operations of Avature USA Recruiting Business and Avature Argentina Recruiting Business are included in the Company's consolidated financial statements from March 1, 2012, the effective date of the acquisition.

The aggregate purchase price for PDI and Global Novations was allocated on a preliminary basis to the assets acquired and liabilities assumed on their estimated fair values at the date of acquisition. During fiscal 2014, adjustments to the preliminary purchase price allocation relating to the PDI acquisition, resulted in an increase in the purchase price and goodwill of \$0.2 million. Tax deductible goodwill from fiscal 2013 acquisitions amounted to \$20.5 million.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

**13. Goodwill and Intangible Assets**

Changes in the carrying value of goodwill by reportable segment were as follows:

	<u>Executive Recruitment</u>				<u>LTC</u>	<u>Futurestep</u>	<u>Consolidated</u>
	<u>North America</u>	<u>EMEA</u>	<u>Asia Pacific</u>	<u>Subtotal</u>			
	(in thousands)						
Balance as of April 30, 2012. . . . .	\$55,608	\$50,664	\$972	\$107,244	\$ 36,251	\$32,843	\$176,338
Additions . . . . .	—	—	—	—	82,839	—	82,839
Exchange rate fluctuations. . . . .	(1,095)	(400)	—	(1,495)	—	(389)	(1,884)
Balance as of April 30, 2013. . . . .	54,513	50,264	972	105,749	119,090	32,454	257,293
Additions (1) . . . . .	—	—	—	—	229	—	229
Exchange rate fluctuations. . . . .	(2,427)	1,293	—	(1,134)	31	1,163	60
Balance as of April 30, 2014. . . . .	<u>\$52,086</u>	<u>\$51,557</u>	<u>\$972</u>	<u>\$104,615</u>	<u>\$119,350</u>	<u>\$33,617</u>	<u>\$257,582</u>

(1) During fiscal 2014, adjustments to the preliminary purchase accounting allocation relating to the PDI acquisition, resulted in an increase in goodwill (see Note 12 — *Acquisitions*).

Intangible assets include the following:

	<u>Weighted-Average Amortization Period</u>	<u>April 30, 2014</u>			<u>April 30, 2013</u>		
		<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
(in thousands)							
Amortized intangible assets:							
Customer lists . . . . .	10 years	\$34,899	\$ (8,674)	\$26,225	\$34,899	\$ (4,887)	\$30,012
Intellectual property . . . . .	20 years	22,900	(7,009)	15,891	22,900	(3,887)	19,013
Proprietary databases . . . . .	10 years	4,256	(1,925)	2,331	4,256	(1,500)	2,756
Trademarks . . . . .	4 years	3,686	(2,559)	1,127	3,686	(1,331)	2,355
Non-compete agreements . . . . .	5 years	810	(610)	200	810	(510)	300
Total . . . . .	11 years	<u>\$66,551</u>	<u>\$(20,777)</u>	45,774	<u>\$66,551</u>	<u>\$(12,115)</u>	54,436
Unamortized intangible assets:							
Trademarks . . . . .				3,800			3,800
Exchange rate fluctuations . . . . .				(14)			(49)
Intangible assets . . . . .				<u>\$49,560</u>			<u>\$58,187</u>

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

Amortization expense for amortized intangible assets was \$8.7 million, \$5.0 million and \$2.2 million during fiscal 2014, 2013 and 2012, respectively. Estimated annual amortization expense related to amortizing intangible assets is as follows:

<u>Year Ending April 30,</u>	<u>Estimated Annual Amortization Expense</u> <u>(in thousands)</u>
2015 .....	\$ 8,081
2016 .....	7,017
2017 .....	5,701
2018 .....	5,008
2019 .....	3,754
Thereafter .....	<u>16,213</u>
	<u>\$45,774</u>

All amortizable intangible assets will be fully amortized by the end of fiscal 2031.

**14. Commitments and Contingencies**

*Lease Commitments*

The Company leases office premises and certain office equipment under leases expiring at various dates through 2026. Total rental expense during fiscal 2014, 2013 and 2012 amounted to \$39.6 million, \$38.4 million and \$35.5 million, respectively.

Future minimum commitments under non-cancelable operating leases with lease terms in excess of one year excluding commitments accrued in the restructuring liability are as follows:

<u>Year Ending April 30,</u>	<u>Lease Commitments</u> <u>(in thousands)</u>
2015 .....	\$ 41,177
2016 .....	32,092
2017 .....	25,329
2018 .....	22,137
2019 .....	18,857
Thereafter .....	<u>64,395</u>
	<u>\$203,987</u>

*Employment Agreements*

As of April 30, 2014, the Company has employment agreements with certain of its executive officers that provide benefits if these executives are terminated or resign under certain limited circumstances. Though the Company could, on a case by case basis, agree to make termination payments to other employees and executive officers, the maximum aggregate amount payable under the agreements referenced above, is \$11.5 million in the absence of a change of control and \$14.6 million for terminations or resignations that occur within 12 months



**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**April 30, 2014**

from the change of control. In certain cases, executives' outstanding options will immediately vest and remain exercisable for periods ranging from three months to their original expiration date following termination of employment.

The Company has a policy of entering into offer letters of employment or letters of promotion with vice presidents which provide for an annual base salary and discretionary and incentive bonus payments. Certain key vice presidents who typically have been employed by the Company for several years may also have a standard form employment agreement. Upon termination without cause, the Company is required to pay the amount of severance due under the employment agreement, if any. The Company also requires its vice presidents to agree in their employment letters and their employment agreement, if applicable, not to compete with the Company both during the term of their employment, and for a period of up to two years after their employment ends. For a period of two years after their employment with the Company, former vice presidents are prohibited from soliciting employees of the Company for employment outside of the Company.

***Litigation***

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

During fiscal 2014, in connection with an employment dispute, the Company recorded expenses in the amount of \$4.5 million in compensation and benefits expense. The Company settled the liability and as of April 30, 2014 carries no liability regarding this matter.

**15. Quarterly Results (Unaudited)**

The following table sets forth certain unaudited consolidated statement of income data for the quarters in fiscal 2014 and 2013. The unaudited quarterly information has been prepared on the same basis as the annual financial statements and, in management's opinion, includes all adjustments necessary to present fairly the information for the quarters presented.

	Quarters Ended							
	Fiscal 2014				Fiscal 2013			
	April 30	January 31	October 31	July 31	April 30 (1)	January 31	October 31	July 31
	(in thousands, except per share data)							
Fee revenue . . . . .	\$251,712	\$242,184	\$237,968	\$228,437	\$227,902	\$202,004	\$196,231	\$186,694
Operating income . . . . .	\$ 24,480	\$ 27,302	\$ 23,165	\$ 16,661	\$ 15,392	\$ 8,706	\$ 2,769	\$ 17,009
Net income . . . . .	\$ 21,211	\$ 21,304	\$ 18,759	\$ 11,417	\$ 12,197	\$ 9,482	\$ 1,196	\$ 10,418
Net income per share:								
Basic. . . . .	\$ 0.44	\$ 0.44	\$ 0.39	\$ 0.24	\$ 0.26	\$ 0.20	\$ 0.03	\$ 0.22
Diluted. . . . .	\$ 0.43	\$ 0.43	\$ 0.38	\$ 0.24	\$ 0.25	\$ 0.20	\$ 0.03	\$ 0.22

- (1) During the three months ended April 30, 2013, the Company implemented a restructuring plan to continue to integrate PDI in order to eliminate redundant positions and consolidate premises. This resulted in restructuring charges, net of recoveries of \$2.9 million against operations during the three months ended April 30, 2013.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**April 30, 2014**

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Charges to Cost and Expenses	Recoveries (Charges) to Other Accounts (1)	Deductions (2)	Balance at End of Period
			(in thousands)		
Allowance for doubtful accounts:					
Year Ended April 30, 2014 .....	\$ 9,097	\$7,840	\$ 291	\$(7,715)	\$ 9,513
Year Ended April 30, 2013 .....	\$ 9,437	\$6,748	\$(118)	\$(6,970)	\$ 9,097
Year Ended April 30, 2012 .....	\$ 9,977	\$5,732	\$(220)	\$(6,052)	\$ 9,437
Deferred tax asset valuation allowance:					
Year Ended April 30, 2014 .....	\$27,731	\$3,728	\$ —	\$(4,490)	\$26,969
Year Ended April 30, 2013 .....	\$25,089	\$5,678	\$ —	\$(3,036)	\$27,731
Year Ended April 30, 2012 .....	\$26,168	\$ 443	\$ —	\$(1,522)	\$25,089

(1) Exchange rate fluctuations.

(2) Allowance for doubtful accounts represents accounts written-off, net of recoveries and deferred tax asset valuation represents release of prior valuation allowances.

## Stock listing

Korn/Ferry International common stock is traded on the New York Stock Exchange under the symbol KFY.

## Annual meeting

The annual meeting of stockholders will be held at  
8:00 a.m. PDT, October 1, 2014, at:  
Hyatt Regency Century Plaza  
2025 Avenue of the Stars  
Los Angeles, CA 90067 USA

## Registrar & transfer agent

For address and changes, account consolidation, registration changes, stock holdings, and lost stock certificates, please contact:

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# Our **locations worldwide**

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