KORN FERRY INTERNATIONAL
Form 10-Q
December 10, 2009

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

Form 10-Q

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

For the quarterly period ended October 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number 001-14505

KORN/FERRY INTERNATIONAL
(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-2623879**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

1900 Avenue of the Stars, Suite 2600, Los Angeles, California 90067
(Address of principal executive offices) (Zip code)
(310) 552-1834
(Registrant s telephone number, including area code)

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

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 o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of our common stock as of December 8, 2009 was 45,773,148 shares.

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
Item 1. ***Condensed Consolidated Financial Statements***

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	October 31, 2009 (unaudited)	April 30, 2009
	(in thousands, except per share data)	
ASSETS		
Cash and cash equivalents	$ 182,938	$ 255,000
Marketable securities	3,783	4,263
Receivables due from clients, net of allowance for doubtful accounts of $7,520 and $11,197, respectively	101,311	67,308
Income taxes and other receivables	8,066	9,001
Deferred income taxes	19,942	14,583
Prepaid expenses and other assets	29,306	21,442
Total current assets	345,346	371,597
Marketable securities, non-current	74,518	70,992
Property and equipment, net	26,578	27,970
Cash surrender value of company owned life insurance policies, net of loans	65,528	63,108
Deferred income taxes	46,894	45,141
Goodwill	164,936	133,331
Intangible assets, net	21,792	16,928
Investments and other assets	15,777	11,812
Total assets	$ 761,369	$ 740,879
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 8,904	$ 10,282
Income taxes payable	10,677	2,059
Compensation and benefits payable	88,065	116,705
Other accrued liabilities	50,418	44,301
Total current liabilities	158,064	173,347
Deferred compensation and other retirement plans	115,833	99,238
Other liabilities	13,104	9,195
Total liabilities	287,001	281,780
Stockholders equity:		
Common stock: $0.01 par value, 150,000 shares authorized, 57,404 and 56,185 shares issued and 45,760 and 44,729 shares outstanding, respectively	376,964	368,430

Retained earnings		73,394		84,922
Accumulated other comprehensive income, net		24,544		6,285
Stockholders equity		474,902		459,637
Less: notes receivable from stockholders		(534)		(538)
Total stockholders equity		474,368		459,099
Total liabilities and stockholders equity	$	761,369	$	740,879

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

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	**2008**	**2009**	**2008**
	(in thousands, except per share data)			
Fee revenue	$ 140,145	$ 189,300	$ 256,948	$ 395,033
Reimbursed out-of-pocket engagement expenses	6,411	10,437	12,896	22,176
Total revenue	146,556	199,737	269,844	417,209
Compensation and benefits	102,076	129,748	192,461	271,871
General and administrative expenses	27,164	32,323	55,218	66,353
Out-of-pocket engagement expenses	9,464	13,297	18,253	28,030
Depreciation and amortization	2,860	2,881	5,689	5,713
Restructuring charges	2,774		20,957	
Total operating expenses	144,338	178,249	292,578	371,967
Operating income (loss)	2,218	21,488	(22,734)	45,242
Interest and other income (loss), net	2,439	(104)	7,172	1,500
Interest expense	1,259	1,080	2,701	2,304
Income (loss) before provision (benefit) for income taxes and equity in earnings of unconsolidated subsidiaries	3,398	20,304	(18,263)	44,438
Provision (benefit) for income taxes	879	7,583	(6,486)	16,876
Equity in earnings of unconsolidated subsidiaries, net	226	839	249	1,902
Net income (loss)	$ 2,745	$ 13,560	$ (11,528)	$ 29,464
Earnings (loss) per common share:				
Basic	$ 0.06	$ 0.31	$ (0.26)	$ 0.68
Diluted	$ 0.06	$ 0.30	$ (0.26)	$ 0.66
Weighted-average common shares outstanding:				
Basic	44,470	43,776	44,123	43,604
Diluted	45,291	44,676	44,123	44,590

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

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

	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
	(in thousands)	
Cash flows from operating activities:		
Net (loss) income	$ (11,528)	$ 29,464
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	5,689	5,712
Stock-based compensation expense	9,248	8,528
Loss on disposition of property and equipment	437	85
Provision for doubtful accounts	1,444	4,871
(Gain) loss on cash surrender value of life insurance policies	(5,196)	4,005
Gain on marketable securities classified as trading	(6,115)	
Realized loss on available-for sale marketable securities		1,242
Deferred income taxes	(7,112)	5,557
Change in other assets and liabilities:		
Deferred compensation	16,595	(4,229)
Receivables	(28,598)	(9,054)
Prepaid expenses	(4,764)	(4,259)
Investment in unconsolidated subsidiaries	(249)	(3,724)
Income taxes payable	6,530	(6,401)
Accounts payable and accrued liabilities	(40,782)	(95,317)
Other	(4,389)	(551)
Net cash used in operating activities	(68,790)	(64,071)
Cash flows from investing activities:		
Purchase of property and equipment	(2,723)	(6,414)
Purchase of intangible assets	(3,481)	
Proceeds from (purchase of) marketable securities, net	3,090	(9,637)
Cash paid for acquisitions, net of cash acquired	(9,984)	
Premiums on life insurance policies	(439)	(439)
Dividends received from unconsolidated subsidiaries	157	1,799
Net cash used in investing activities	(13,380)	(14,691)
Cash flows from financing activities:		
Payments on life insurance policy loans		(367)
Borrowings under life insurance policies	3,219	429
Purchase of common stock	(1,362)	(7,582)
Proceeds from issuance of common stock upon exercise of employee stock options and in connection with an employee stock purchase plan	3,991	2,484
Tax (expense) benefit from exercise of stock options	(3,125)	162
Net cash provided by (used in) financing activities	2,723	(4,874)

Effect of exchange rate changes on cash and cash equivalents	7,385	(22,432)
Net decrease in cash and cash equivalents	(72,062)	(106,068)
Cash and cash equivalents at beginning of period	255,000	305,296
Cash and cash equivalents at end of period	$ 182,938	$ 199,228

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

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2009

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 executive search, outsourced recruiting and leadership and talent consulting on a retained basis. The Company s worldwide network of 78 offices in 37 countries enables it to meet the needs of its clients in all industries.

Basis of Consolidation and Presentation

The condensed consolidated financial statements for the three and six months ended October 31, 2009 and 2008 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 condensed consolidated financial statements conform with United States (U.S.) generally accepted accounting principles (GAAP) and prevailing practice within the industry. The condensed 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. These financial statements have been prepared consistently with the accounting policies described in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2009 (the Annual Report) and should be read together with the Annual Report.

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 and other distributions of earnings from cost-method investments are included in other income when declared.

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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The most significant areas that require management judgment are revenue recognition, deferred compensation, marketable securities, evaluation of the carrying value of receivables, goodwill and other intangible assets and deferred income taxes.

Revenue Recognition

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

Cash and Cash Equivalents

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

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 31, 2009

Marketable Securities

The Company classifies its marketable securities as either trading securities or available-for-sale. These investments are recorded at fair value and are classified as marketable securities in the accompanying consolidated balance sheets. Certain investments, which the Company intends to sell within the next twelve months, are carried as current. Investments are made based on the Company s investment policy which restricts the types of investments that can be made.

Trading securities consist of the Company s investments, which are held in trust to satisfy obligations under the Company s deferred compensation plans (see Note 5). The changes in fair values on trading securities are recorded as a component of net (loss) income in interest and other income, net.

Available-for-sale securities consist of time deposits. The changes in fair values, net of applicable taxes, on available-for-sale marketable securities are recorded as unrealized gains (losses) as a component of accumulated other comprehensive income (loss) in stockholders equity. When, in the opinion of management, a decline in the fair value of an investment below its cost or amortized cost is considered to be other-than-temporary, the investment s cost or amortized cost is written-down to its fair value and the amount written-down is recorded in the statement of operations in interest and other income (loss), net. The determination of 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. The amount of any write-down is determined by the difference between cost or amortized cost of the investment and its fair value at the time the other-than-temporary decline is identified. During the three and six months ended October 31, 2009 and 2008, no other-than-temporary impairment was recognized.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of assets acquired. Purchased intangible assets primarily consist of customer lists, non-compete agreements, proprietary databases, intellectual property and trademarks, and are recorded at the estimated fair value at the date of acquisition and are amortized using the straight-line method over their estimated useful lives of five to 24 years.

The Company s annual goodwill impairment test is performed as of January 31. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit s goodwill is compared to the carrying amount of that goodwill. The implied fair value of goodwill shall be 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 shall be 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. As of the last testing date, these impairment tests 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 impairment as of October 31, 2009 and April 30, 2009.

As of October 31, 2009 and April 30 2009, there were no indicators of impairment with respect to the Company s intangible assets.

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, stock appreciation rights (SARs), restricted stock and an Employee Stock Purchase Plan (ESPP). In addition to recognizing compensation expense related to restricted stock and SARs, the Company also recognizes compensation expense related to the estimated fair value of stock options and stock purchases under the ESPP.

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 31, 2009

Restructuring Charges

The Company accounts for its restructuring charges as a liability when the costs are incurred and are recorded at fair value.

Fair Value of Financial Instruments

Effective May 1, 2008, the Company adopted SFAS 157, *Fair Value Measurements* (SFAS 157) for financial assets and liabilities, which defines fair value, provides guidance for measuring fair value and requires certain disclosures. SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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.

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 October 31 2009 and April 30, 2009, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included cash equivalents, marketable securities and a put option. 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, other than auction rate securities, are obtained from quoted market prices. The fair value of the auction rate securities and put option are determined by the use of pricing models (see Note 5).

The guidance for SFAS 157 may now be found in the new codification as a component of ASC 820, *Fair Value Measurements and Disclosures*.

Recently Adopted Accounting Standards

In June 2009, the FASB issued SFAS No. 168*, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009. The Company adopted SFAS 168 in the second fiscal quarter 2009. As the Codification was not intended to change or alter existing GAAP, it did not impact the Company s condensed consolidated financial statements. The guidance for SFAS 168 may now be found in the new codification as a component of ASC 105, *Generally Accepted Accounting Principles.*

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 31, 2009

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities including contingencies and any noncontrolling interests in the acquiree, be recorded at the fair value determined on the acquisition date and changes thereafter be reflected in earnings, rather than goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R will have an impact on accounting for business combinations but the effect is dependent upon acquisitions at that time. For acquisitions completed prior to May 1, 2009, the new standard requires that changes in deferred tax valuation allowances and acquired income tax uncertainties after the measurement period must be recognized in earnings rather than as an adjustment to the cost of the acquisition. The impact of the adoption of SFAS 141R on the Company s consolidated financial position and results of operations will largely be dependent on the size and nature of the business combinations completed after the adoption of this statement. The guidance for SFAS 141R may now be found in the new codification as a component of ASC 805, *Business Combinations*.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, earlier adoption is not permitted. The Company currently does not have significant minority interests in its consolidated subsidiaries and as such SFAS 160 did not have an impact on the Company s condensed consolidated financial statements. The guidance for SFAS 160 may now be found in the new codification as a component of ASC 810, *Consolidation*.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly decreased and (2) identifying transactions that are not orderly. FSP 157-4 was effective for interim and annual periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a material impact on the Company s condensed consolidated financial statements. The guidance for FSP 157-4 may now be found in the new codification as a component of ASC 820-10-65-4, *Fair Value Measurements and Disclosures*.

In April 2009, the FASB issued FASB Staff Position No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1). FSP 107-1 requires disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 was effective for interim periods ending after June 15, 2009. The adoption of FSP 107-1 did not have a material impact on the Company s condensed consolidated financial statements. The guidance for FSP 107-1 may now be found in the new codification as a component of ASC 825-10-65-1, *Financial Instruments*.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this standard during the three months ended July 31, 2009. The implementation of this standard did not have any impact on the financial statements of the Company. Subsequent events through the filing date of this Form 10-Q have been evaluated for disclosure and recognition and the Company concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements. The guidance for SFAS 165 may now be found in the new codification as a component of ASC 855, *Subsequent Events*.

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 31, 2009

2. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share was computed by dividing net earnings (loss) by the weighted-average number of common shares outstanding. Diluted earnings per common share reflects the potential dilution that would occur if all in-the-money outstanding options or other contracts to issue common stock were exercised or converted and was computed by dividing net earnings (loss) attributable to common stockholders by the weighted-average number of common shares outstanding plus dilutive common equivalent shares. During the three months ended October 31, 2009, SARs and options to purchase 1.6 million shares were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. Due to the loss attributable to common stockholders during the six months ended October 31, 2009, no potentially dilutive shares are included in the loss per share calculation as including such shares in the calculation would be anti-dilutive. During the three and six months ended October 31, 2008, SARs and options to purchase 1.6 million shares, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008
	(in thousands, except per share data)			
Net earnings (loss) attributable to common stockholders	$ 2,745	$ 13,560	$ (11,528)	$ 29,464
Weighted-average common shares outstanding:				
Basic weighted-average number of common shares outstanding	44,470	43,776	44,123	43,604
Effect of dilutive securities:				
Warrants	48	72		76
Restricted stock	385	98		160
Stock options	386	717		732
ESPP	2	13		18
Diluted weighted-average number of common shares outstanding	45,291	44,676	44,123	44,590
Net earnings (loss) per common share:				
Basic earnings (loss) per share	$ 0.06	$ 0.31	$ (0.26)	$ 0.68
Diluted earnings (loss) per share	$ 0.06	$ 0.30	$ (0.26)	$ 0.66

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 31, 2009

3. Comprehensive Income (Loss)

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

Total comprehensive income (loss) is as follows:

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
	(in thousands)			
Net income (loss)	$ 2,745	$ 13,560	$ (11,528)	$ 29,464
Foreign currency translation adjustments	5,975	(41,330)	18,259	(42,715)
Unrealized losses on marketable securities, net of taxes		(4,829)		(6,259)
Comprehensive income (loss)	$ 8,720	$ (32,599)	$ 6,731	$ (19,510)

The components of accumulated other comprehensive income were as follows:

	October 31, 2009	April 30, 2009
	(in thousands)	
Foreign currency translation adjustments	$ 21,782	$ 3,523
Defined benefit pension adjustments, net of taxes	2,762	2,762
Accumulated other comprehensive income	$ 24,544	$ 6,285

4. Employee Stock Plans

Stock-Based Compensation

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

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
	(in thousands)			
Stock options and SARs	$ 258	$ (64)	$ 494	$ 224
Restricted stock	4,406	4,268	8,553	8,058
ESPP	88	113	201	246
Total stock-based compensation expense, pre-tax	4,752	4,317	9,248	8,528
Tax benefit from stock-based compensation expense	(1,735)	(1,576)	(3,376)	(3,113)
Total stock-based compensation expense, net of tax	$ 3,017	$ 2,741	$ 5,872	$ 5,415

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. The expected volatility reflects the consideration of the historical volatility in the Company s publicly traded instruments 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.

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 31, 2009

The weighted-average assumptions used to estimate the fair value of each employee stock option and SARs were as follows:

	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
Expected volatility	48.91%	44.11%
Risk-free interest rate	2.53%	3.27%
Expected option life (in years)	5.00	4.25
Expected dividend yield	0.00%	0.00%

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

Stock Incentive Plans

The Korn/Ferry International 2008 Stock Incentive Plan (the 2008 Plan) was amended by the Company s stockholders on September 10, 2009, at the 2009 Annual Stockholder Meeting. The amendment makes available an additional 2,360,000 shares of the Company s common stock for stock-based compensation awards. The 2008 Plan provides for, the grant of awards to eligible participants, designated as either nonqualified or incentive stock options, SARs, restricted stock and restricted stock units, any of which may be performance-based, and incentive bonuses, which may be paid in cash or a combination thereof.

Stock Options and SARs

Stock options and SARs transactions under the Company s stock incentive plans were as follows:

Six Months Ended October 31, 2009 (in thousands, except per share data)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding, April 30, 2009	3,113	$ 14.83		
Granted	556	$ 10.70		
Exercised	(341)	$ 7.94		
Forfeited/expired	(373)	$ 17.02		
Outstanding, October 31, 2009	2,955	$ 14.57	3.99	$ 9,945
Exercisable, October 31, 2009	2,431	$ 15.42	3.40	$ 7,136

Included in the table above are 53,899 SARs outstanding and exercisable as of October 31, 2009 with a weighted-average exercise price of $11.31. As of October 31, 2009, there was $2.3 million of total unrecognized compensation cost related to non-vested awards of stock options and SARs. That cost is expected to be recognized over a weighted-average period of 2.0 years. For stock option awards subject to graded vesting, the Company recognizes the total compensation cost on a straight-line basis over the service period for the entire award.

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Additional information pertaining to stock options and SARs:

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
	(in thousands, except per share data)			
Weighted-average fair value of stock options granted	$ 6.48	$ 6.67	$ 4.81	$ 6.69
Total fair value of stock options and SARs vested	$ 508	$ 216	$ 596	$ 1,908
Total intrinsic value of stock options exercised	$ 382	$ 511	$ 1,100	$ 610
Total intrinsic value of SARs paid	$	$	$	$

Restricted Stock

The Company grants restricted stock to executive officers and other senior employees generally vesting over a three to four year period. Restricted stock is granted at a price equal to the fair market value of the Company s common stock on the date of grant. Employees may receive restricted stock annually in conjunction with the Company s performance review as well as upon commencement of employment. The fair value of restricted stock is determined based on the closing price of the Company s common stock on the date of grant.

Restricted stock activity is summarized below:

	Six Months Ended October 31, Shares	Six Months Ended October 31, Weighted-Average Grant Date Fair Value
	(in thousands, except per share data)	
Non-vested, April 30, 2009	2,387	$ 15.50
Granted	961	$ 10.18
Vested	(678)	$ 20.34
Forfeited/expired	(74)	$ 14.40
Non-vested, October 31, 2009	2,596	$ 12.92

As of October 31, 2009, there was $33.5 million of total unrecognized compensation cost related to non-vested awards of restricted stock, which is expected to be recognized over a weighted-average period of 2.4 years. For restricted stock awards subject to graded vesting, the Company recognizes the total compensation cost on a straight-line basis over the service period for the entire award. In the three and six months ended October 31, 2009, 8,737 shares and 128,654 shares of restricted stock totaling $0.2 million and $1.4 million, respectively, were repurchased by the Company at the option of the employee to pay for taxes related to vesting of restricted stock. In the three and six months ended October 31, 2008, 7,902 shares and 126,309 shares of restricted stock totaling $0.1 million and $2.1 million, respectively, were repurchased by the Company at the option of the employee to pay for taxes related to vesting of restricted stock.

Common Stock

In the three and six months ended October 31, 2009, the Company issued 50,050 shares and 340,880 shares of common stock as a result of the exercise of stock options. In the three and six months ended October 31, 2008, the Company issued 79,912 shares and 96,412 shares of common stock as a result of the exercise of stock options.

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Employee Stock Purchase Plan

In October 2003, the Company implemented 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 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. The maximum number of shares of common stock reserved for ESPP issuance is 1.5 million shares, subject to adjustment for certain changes in the Company s capital structure and other extraordinary events. During the six months ended October 31, 2009 and 2008, employees purchased 141,923 shares at $9.04 per share and 118,615 shares at $13.37 per share, respectively. No shares were purchased in the three months ended October 31, 2009 and 2008.

5. Marketable Securities

As of October 31, 2009 marketable securities consisted of the following:

	October 31, 2009 Trading (in thousands)
Auction rate securities	$ 10,774
Auction rate securities put option	1,176
Equity securities (1)	29,874
Fixed income mutual fund (1)	15,388
Non-current money market (1)	21,089
Total	78,301
Less: current portion of marketable securities	(3,783)
Non-current marketable securities	$ 74,518

(1) These investments are held in trust for settlement of the Company s obligations under certain of its deferred compensation plans with $3.8 million classified as current assets.

As of April 30, 2009 marketable securities consisted of the following:

	April 30, 2009		
	Trading	Available-for-Sale(1)	Total

		(in thousands)	
Auction rate securities	$ 11,329	$	$ 11,329
Auction rate securities put option	1,096		1,096
Equity securities (2)	23,816		23,816
Fixed income mutual fund (2)	14,320		14,320
Non-current money market (2)	22,692		22,692
Time deposits		2,002	2,002
Total	73,253	2,002	75,255
Less: current portion of marketable securities	(2,261)	(2,002)	(4,263)
Non-current marketable securities	$ 70,992	$	$ 70,992

(1) Due to the short maturities for these instruments, fair value approximates amortized cost.

(2) These investments are held in trust for settlement of the Company s obligations under certain of its deferred compensation plans with $2.3 million classified as current assets.

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Investments in marketable securities are made based on the Company s investment policy which restricts the types of investments that can be made. The Company s investments associated with cash equivalents and marketable securities consist of money market funds, United States government and government agency bonds and equity securities for which market prices are readily available. The Company s investments in marketable securities also include student loan portfolios (ARS), which are classified as noncurrent marketable securities and reflected at fair value.

As of October 31, 2009 and April 30, 2009, the Company s marketable securities included $66.4 million (net of unrealized losses of $3.3 million) and $60.8 million (net of unrealized losses of $10.0 million) respectively, held in trust for settlement of the Company s obligations under certain of its deferred compensation plans, of which $62.6 million and $58.5 million are classified as noncurrent. The Company s obligations for which these assets were held in trust totaled $66.3 million and $60.7 million as of October 31, 2009 and April 30, 2009, respectively.

The following table represents the Company s fair value hierarchy for financial assets measured at fair value on a recurring basis:

	October 31, 2009			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	$ 127,649	$ 127,649	$	$
Auction rate securities	10,774			10,774
Auction rate securities put option	1,176			1,176
Equity securities	29,874	29,874		
Fixed income mutual fund	15,388	15,388		
Noncurrent money market mutual funds	21,089	21,089		
Total	$ 205,950	$ 194,000	$	$ 11,950

	April 30, 2009			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	$ 165,590	$ 165,590	$	$
Auction rate securities	11,329			11,329
Auction rate securities put option	1,096			1,096
Equity securities	23,816	23,816		
Fixed income mutual fund	14,320	14,320		
Noncurrent money market mutual funds	22,692	22,692		
Time deposits	2,002	2,002		
Total	$ 240,845	$ 228,420	$	$ 12,425

The following table presents the Company s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods indicated:

	Auction Rate Securities			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008

	(in thousands)			
Balance, beginning of period	$ 12,225	$ 17,783	$ 12,425	$ 20,475
Auction rate securities put option	42	1,638	164	1,638
Reversal of unrealized loss associated with transfer of security to trading		780		780
Unrealized loss included in operations	(42)	(1,638)	(164)	(1,638)
Unrealized loss included in accumulated other comprehensive income		(327)		(586)
Sale of securities	(275)	(700)	(475)	(3,250)
Reversal of unrealized loss associated with sales of securities at par		41		158
Balance, ending of period	$ 11,950	$ 17,577	$ 11,950	$ 17,577

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6. Restructuring Charges

During the three months ended October 31, 2009, the Company reorganized its go-to-market and operating structure in Europe, Middle East and Africa (EMEA) region, and as a result incurred restructuring charges of $7.6 million against operations, all of which related to severance costs. This restructuring expense was partially offset by $4.8 million of reductions from previous restructuring charges resulting in net restructuring costs of $2.8 million during the three months ended October 31, 2009. The Company s basic and diluted (loss) earnings per share for the three and six months ended October 31, 2009 would have decreased by $0.07 per share had reductions of previously recorded restructuring charges of $4.8 million (or $3.1 million, net of taxes) not been recorded.

Changes in the restructuring liability during the three months ended October 31, 2009 are as follows:

	Severance	Facilities (in thousands)	Total
Liability as of July 31, 2009	$ 11,530	$ 21,145	$ 32,675
Additions charged to expense	7,592		7,592
Reductions	(1,911)	(2,907)	(4,818)
Non-cash items		(2,272)	(2,272)
Reductions for cash payments	(6,504)	(1,880)	(8,384)
Exchange rate fluctuations	169	166	335
Liability as of October 31, 2009	$ 10,876	$ 14,252	$ 25,128

Changes in the restructuring liability during the six months ended October 31, 2009 are as follows:

	Severance	Facilities (in thousands)	Total
Liability as of April 30, 2009	$ 10,554	$ 12,807	$ 23,361
Additions charged to expense	15,940	9,835	25,775
Reductions	(1,911)	(2,907)	(4,818)
Non-cash items	(370)	(2,341)	(2,711)
Reductions for cash payments	(13,917)	(3,914)	(17,831)
Exchange rate fluctuations	580	772	1,352
Liability as of October 31, 2009	$ 10,876	$ 14,252	$ 25,128

As of October 31, 2009 and April 30, 2009, the restructuring liability is included in the current portion of other accrued liabilities on the consolidated balance sheet, except for $5.4 million, 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 eight years.

The restructuring liability by segment is summarized below:

		October 31, 2009	
	Severance	Facilities (in thousands)	Total
Executive Recruitment			
North America	$ 703	$ 1,586	$ 2,289
EMEA	9,719	9,469	19,188

Asia Pacific		827	827
South America	231		231
Total Executive Recruitment	10,653	11,882	22,535
Futurestep	223	2,370	2,593
Liability as of October 31, 2009	$ 10,876	$ 14,252	$ 25,128

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	April 30, 2009		
	Severance	Facilities	Total
	(in thousands)		
Executive Recruitment			
North America	$ 3,052	$ 3,187	$ 6,239
EMEA	4,714	2,514	7,228
Asia Pacific	48	1,243	1,291
South America	787	334	1,121
Total Executive Recruitment	8,601	7,278	15,879
Futurestep	1,953	5,529	7,482
Liability as of April 30, 2009	$ 10,554	$ 12,807	$ 23,361

7. Deferred Compensation and Retirement Plans

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

The components of net periodic benefit costs are as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008
	(in thousands)			
Service cost	$ 85	$ 174	$ 170	$ 348
Interest cost	945	910	1,890	1,820
Amortization of actuarial gain	(20)	(21)	(40)	(42)
Amortization of net transition obligation		53		106
Net periodic benefit costs	$ 1,010	$ 1,116	$ 2,020	$ 2,232

The Company also has an Executive Capital Accumulation Plan (ECAP) which is intended to provide certain employees an opportunity to defer salary and/or bonus on a pre-tax basis, or make an after-tax contribution. The Company made contributions to the ECAP during the three months ended October 31, 2009 and 2008, of $0.2 million and $2.9 million, respectively. The Company made contributions to the ECAP during the six months ended October 31, 2009 and 2008, of $0.6 million and $14.7 million, respectively. Participants generally vest in Company contributions over a four year period. The ECAP is accounted for whereby the changes in the fair value of the vested amounts owed to the participants are adjusted with a corresponding charge (or credit) to compensation and benefits costs. During the three and six months ended October 31, 2009, deferred compensation liability increased, therefore the Company recognized a compensation expense of $1.4 million and $4.0 million, respectively. The reduction in the deferred compensation liability recognized in income during the three and six months ended October 31, 2008 was $7.8 million and $8.6 million, respectively.

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8. Business Segments

The Company operates in two global business segments; executive recruitment and Futurestep. The executive recruitment segment focuses on recruiting board-level, chief executive and other senior executive positions for clients predominantly in the consumer, financial services, industrial, life sciences and technology industries and provides other related recruiting services. Futurestep creates customized, flexible talent acquisition solutions to meet specific workforce needs of organizations around the world. Their portfolio of services include recruitment process outsourcing, talent acquisition and management consulting services, project-based recruitment, mid-level recruitment and interim professionals. The executive recruitment business segment is managed by geographic regional leaders. Futurestep s worldwide operations are managed by the Chief Executive Officer of Futurestep. The executive recruitment geographic regional leaders and the 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.

Financial highlights by business segment are as follows:

Three Months Ended October 31, 2009

	Executive Recruitment							
	North America	**EMEA**	**Asia Pacific**	**South America**	**Subtotal**	**Futurestep**	**Corporate**(1)	**Consolidated**
					(in thousands)			
Fee revenue	$ 68,230	$ 35,376	$ 13,563	$ 6,122	$ 123,291	$ 16,854	$	$ 140,145
Total revenue	$ 71,909	$ 36,213	$ 13,911	$ 6,263	$ 128,296	$ 18,260	$	$ 146,556
Operating income (loss)	$ 12,529	$ (4,204)	$ (26)	$ 1,375	$ 9,674	$ 2,617	$ (10,073)	$ 2,218

Three Months Ended October 31, 2008

	Executive Recruitment							
	North America	**EMEA**	**Asia Pacific**	**South America**	**Subtotal**	**Futurestep**	**Corporate**(1)	**Consolidated**
					(in thousands)			
Fee revenue	$ 91,697	$ 40,486	$ 21,187	$ 6,828	$ 160,198	$ 29,102	$	$ 189,300
Total revenue	$ 97,224	$ 42,010	$ 21,603	$ 6,954	$ 167,791	$ 31,946	$	$ 199,737
Operating income (loss)	$ 16,197	$ 5,910	$ 3,267	$ 1,214	$ 26,588	$ 1,221	$ (6,321)	$ 21,488

Six Months Ended October 31, 2009

Executive Recruitment

North **South** &nbs