

KORN FERRY INTERNATIONAL

Form 10-Q

December 10, 2009

Table of Contents

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

Form 10-Q

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

For the quarterly period ended October 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 001-14505

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

Delaware

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 No

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

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

Large accelerated filer

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 Exchange Act). Yes No

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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
Table of Contents

Item #	Description	Page
<u>Part I. Financial Information</u>		
<u>Item 1</u>	<u>Condensed Consolidated Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of October 31, 2009 (unaudited) and April 30, 2009</u>	1
	<u>Unaudited Consolidated Statements of Operations for the three and six months ended October 31, 2009 and 2008</u>	2
	<u>Unaudited Consolidated Statements of Cash Flows for the six months ended October 31, 2009 and 2008</u>	3
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	4
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4</u>	<u>Controls and Procedures</u>	30
<u>Part II. Other Information</u>		
<u>Item 1</u>	<u>Legal Proceedings</u>	31
<u>Item 1A</u>	<u>Risk Factors</u>	31
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	31
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	32
<u>Item 5</u>	<u>Other Information</u>	32
<u>Item 6</u>	<u>Exhibits</u>	32
	<u>Signatures</u>	33
	<u>Exhibit 31.1</u>	
	<u>Exhibit 31.2</u>	
	<u>Exhibit 32.1</u>	

Table of Contents**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

Edgar Filing: KORN FERRY INTERNATIONAL - Form 10-Q

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.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	October 31,		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.

Table of Contents

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

	Six Months Ended	
	October 31,	
	2009	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)

Edgar Filing: KORN FERRY INTERNATIONAL - Form 10-Q

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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*.

Table of Contents

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*.

Table of Contents

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, 2009		Six Months Ended October 31, 2009	
	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

Table of Contents

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		Six Months Ended	
	October 31,		October 31,	
	2009	2008	2009	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,	April 30,
	2009	2009
&nb		