

KORN FERRY INTERNATIONAL  
Form 10-Q  
September 08, 2017  
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**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 July 31, 2017**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-14505**

**KORN/FERRY INTERNATIONAL**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of Incorporation or  
Organization)*

**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 (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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 5, 2017 was 56,492,489 shares.

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**Table of Contents****Item 1. Consolidated Financial Statements****KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>July 31, 2017 (unaudited)</b>	<b>April 30, 2017</b>
	<b>(in thousands, except per share data)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 282,019	\$ 410,882
Marketable securities	11,651	4,363
Receivables due from clients, net of allowance for doubtful accounts of \$16,088 and \$15,455 at July 31, 2017 and April 30, 2017, respectively	365,657	345,314
Income taxes and other receivables	44,035	31,573
Prepaid expenses and other assets	62,525	51,542
Total current assets	765,887	843,674
Marketable securities, non-current	114,608	115,574
Property and equipment, net	112,787	109,567
Cash surrender value of company owned life insurance policies, net of loans	113,866	113,067
Deferred income taxes, net	19,387	20,175
Goodwill	583,265	576,865
Intangible assets, net	213,910	217,319
Investments and other assets	90,617	66,657
Total assets	\$ 2,014,327	\$ 2,062,898
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 32,658	\$ 37,481
Income taxes payable	7,204	4,526
Compensation and benefits payable	145,752	248,354
Term loan	19,754	19,754
Other accrued liabilities	153,386	148,464
Total current liabilities	358,754	458,579
Deferred compensation and other retirement plans	220,894	219,905
Term loan, non-current	231,284	236,222
Deferred tax liabilities	18,758	7,014
Other liabilities	55,886	54,130

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Total liabilities	885,576	975,850
Stockholders' equity:		
Common stock: \$0.01 par value, 150,000 shares authorized, 71,480 and 70,811 shares issued at July 31, 2017 and April 30, 2017, respectively, and 57,246 and 56,938 shares outstanding at July 31, 2017 and April 30, 2017, respectively	694,146	692,527
Retained earnings	485,194	461,976
Accumulated other comprehensive loss, net	(54,691)	(71,064)
Total Korn/Ferry International stockholders' equity	1,124,649	1,083,439
Noncontrolling interest	4,102	3,609
Total stockholders' equity	1,128,751	1,087,048
Total liabilities and stockholders' equity	\$ 2,014,327	\$ 2,062,898

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

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(unaudited)**

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands, except per share data)</b>	
Fee revenue	\$ 401,254	\$ 375,621
Reimbursed out-of-pocket engagement expenses	13,663	17,312
Total revenue	414,917	392,933
Compensation and benefits	273,954	262,967
General and administrative expenses	58,261	55,342
Reimbursed expenses	13,663	17,312
Cost of services	15,813	16,832
Depreciation and amortization	12,209	11,444
Restructuring charges, net	280	24,520
Total operating expenses	374,180	388,417
Operating income	40,737	4,516
Other income, net	3,532	4,259
Interest expense, net	(2,660)	(3,061)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	41,609	5,714
Equity in earnings of unconsolidated subsidiaries, net	30	79
Income tax provision	12,210	1,725
Net income	29,429	4,068
Net income attributable to noncontrolling interest	(388)	(860)
Net income attributable to Korn/Ferry International	\$ 29,041	\$ 3,208
Earnings per common share attributable to Korn/Ferry International:		
Basic	\$ 0.52	\$ 0.06

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Diluted	\$	0.51	\$	0.06
Weighted-average common shares outstanding:				
Basic		55,795		56,189
Diluted		56,403		56,576
Cash dividends declared per share:	\$	0.10	\$	0.10

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

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**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands, except per share data)</b>	
Net income	\$ 29,429	\$ 4,068
Other comprehensive income (loss):		
Foreign currency translation adjustments	16,189	(13,274)
Deferred compensation and pension plan adjustments, net of tax	352	462
Net unrealized loss on interest rate swap, net of tax	(63)	
Comprehensive income (loss)	45,907	(8,744)
Less: comprehensive income attributable to noncontrolling interest	(493)	(714)
Comprehensive income (loss) attributable to Korn/Ferry International	\$ 45,414	\$ (9,458)

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



Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 29,429	\$ 4,068
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,209	11,444
Stock-based compensation expense	4,696	4,915
Provision for doubtful accounts	3,070	2,577
Gain on cash surrender value of life insurance policies	(2,485)	(2,498)
Gain on marketable securities	(3,429)	(3,915)
Deferred income taxes	8,562	5,410
Change in other assets and liabilities:		
Deferred compensation	8,288	(5,866)
Receivables due from clients	(23,413)	(28,586)
Income tax and other receivables	(10,930)	(8,093)
Prepaid expenses and other assets	(10,983)	(10,066)
Investment in unconsolidated subsidiaries	(30)	(79)
Income taxes payable	6,463	(4,014)
Accounts payable and accrued liabilities	(109,034)	(93,866)
Other	(21,986)	(7,137)
Net cash used in operating activities	(109,573)	(135,706)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(9,529)	(15,079)
Cash paid for acquisition, net of cash acquired		(2,880)
Purchase of marketable securities	(4,600)	(5,430)
Proceeds from sales/maturities of marketable securities	1,734	13,764
Premium on company-owned life insurance policies	(403)	(401)
Proceeds from life insurance policies	971	
Dividends received from unconsolidated subsidiaries	60	230
Net cash used in investing activities	(11,767)	(9,796)
Cash flows from financing activities:		
Proceeds from term loan facility		275,000

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Principal payment on term loan facility	(5,156)	(140,000)
Payment of contingent consideration from acquisition	(485)	(1,070)
Repurchases of common stock	(4,026)	
Payments of tax withholdings on restricted stock	(3,346)	(4,161)
Proceeds from issuance of common stock upon exercise of employee stock options and in connection with an employee stock purchase plan	3,984	2,430
Dividends paid to shareholders	(5,823)	(5,909)
Payments on life insurance policy loans	(414)	
Net cash (used in) provided by financing activities	(15,266)	126,290
Effect of exchange rate changes on cash and cash equivalents	7,743	(9,967)
Net decrease in cash and cash equivalents	(128,863)	(29,179)
Cash and cash equivalents at beginning of period	410,882	273,252
Cash and cash equivalents at end of period	\$ 282,019	\$ 244,073

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

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**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**

**July 31, 2017**

**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 search on a retained basis, recruitment for non-executive professionals, recruitment process outsourcing and leadership & talent consulting services.

***Basis of Consolidation and Presentation***

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended April 30, 2017 for 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. The results of operations for the interim period are not necessarily indicative of the results for the entire fiscal year.

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.

The Company has control of a Mexico subsidiary and consolidates the operations of this subsidiary. Noncontrolling interest, which represents the Company's 51% noncontrolling interest in the Mexico subsidiary, is reflected on the Company's consolidated financial statements.

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 fee revenue is derived from fees for professional services related to executive search performed on a retained basis, recruitment for non-executive professionals, recruitment process outsourcing, people and organizational advisory services and the sale of product services. Fee revenue from executive search activities and recruitment for non-executive professionals is generally one-third of the estimated first year compensation of the placed executive or non-executive professional, as applicable, plus a percentage of the fee to cover indirect engagement related expenses. The Company generally recognizes such 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 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 and/or as milestones are achieved. Fee revenue from Hay Group (formerly known as Leadership & Talent Consulting ( Legacy LTC ) which was combined with HG (Luxembourg) S.à.r.l ( Legacy Hay ) in December 2015) 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.

