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

FORM 10-Q

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

For the quarterly period ended July 31, 1999 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)

California  
(State of other jurisdiction  
of incorporation or organization)

95-2623879  
(I.R.S. Employer  
Identification Number)

1800 Century Park East, Suite 900, Los Angeles, California 90067  
(Address of principal executive offices) (zip code)

(310) 843-4100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months, and (2) has been subject to such filing  
requirements for the past 90 days.

Yes (X) No ( )

The number of shares outstanding of the Company's Common Stock as of  
September 14, 1999 was 35,770,438.

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES  
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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(in thousands)

<TABLE>  
<CAPTION>

-----  
As of  
April 30, 1999  
-----  
(unaudited)  
<C>

ASSETS  
-----

Cash and cash equivalents \$113,741	\$ 88,186
Marketable securities 21,839	14,982
Receivables due from clients, net of allowance for doubtful accounts of \$9,702 and \$7,847 63,139	77,412
Other receivables 3,337	2,872
Prepaid expenses 5,736	7,621
----- Total current assets 207,792	----- 191,073 -----

Property and equipment:	
Computer equipment and software 17,554	21,041
Furniture and fixtures 14,646	14,354
Leasehold improvements 11,785	11,836
Automobiles 1,716	1,626
----- 45,701	----- 48,857
Less - Accumulated depreciation and amortization (24,591)	(26,288)
-----	-----

Property and equipment, net 21,110	22,569
-----	-----

Cash surrender value of company owned life insurance policies, net of loans 41,973	43,951
Marketable securities, guaranteed investment contracts and notes receivable 8,218	7,314
Deferred income taxes 18,182	18,417
Goodwill and other intangibles, net of accumulated amortization of \$5,553 and \$5,351 3,639	5,166
Other 3,210	3,120
-----	-----

Total assets \$291,610  
 \$304,124  
 =====

</TABLE>

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

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET - (Continued)  
 (in thousands)

<TABLE>  
 <CAPTION>

	As of July 31, 1999 ----- (unaudited)	As of April 30, 1999 -----
	<C>	<C>
<S> LIABILITIES AND SHAREHOLDERS' EQUITY -----		
Notes payable and current maturities of long-term debt	\$ 1,785	\$ 1,356
Accounts payable	6,595	10,384
Income taxes payable	6,012	2,323
Accrued liabilities:		
Compensation	21,077	35,212
Payroll taxes	11,413	20,546
Other accruals	24,043	21,910
	-----	-----
Total current liabilities	70,925	91,731
Deferred compensation	34,767	33,531
Long-term debt	1,442	2,360
Other	1,752	1,775
	-----	-----
Total liabilities	108,886	129,397
	-----	-----
Non-controlling shareholders' interests	2,465	2,041
	-----	-----
Shareholders' equity		
Common stock, no par value-Authorized 150,000 shares, 35,770 and 35,633 shares outstanding	253,336	253,021
Retained deficit	(60,822)	(66,426)
Accumulated other comprehensive loss	(2,111)	(2,360)
	-----	-----
Shareholders' equity	190,403	184,235
Less: Notes receivable from shareholders	(10,144)	(11,549)
	-----	-----
Total shareholders' equity	180,259	172,686
	-----	-----
Total liabilities and shareholders' equity	\$291,610	\$304,124
	=====	=====

</TABLE>

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

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

<TABLE>  
 <CAPTION>

	Three Months Ended July 31,		
	1999 -----	1998 ----- (unaudited)	Proforma 1998 (1) -----
	<C>	<C>	<C>
Revenues, net	\$104,780	\$84,745	\$84,745
Compensation and benefits	64,733	56,084	51,145
General and administrative expenses	29,802	25,020	25,020
Interest and other income (expense)	688	(496)	(496)

Income before provision for income taxes and non-controlling shareholders' interests	10,933	3,145	8,084
Provision for income taxes	4,591	1,360	3,495
Non-controlling shareholders' interests	738	266	266
Net income	\$ 5,604	\$ 1,519	\$ 4,323
Basic earnings per common share	\$ 0.16	\$ 0.06	\$ 0.17
Basic weighted average common shares outstanding	35,755	25,918	25,918
Diluted earnings per common share	\$ 0.15	\$ 0.05	\$ 0.16
Diluted weighted average common shares outstanding	36,268	27,654	27,654

</TABLE>

(1) The proforma results for the three months ended July 31, 1998 take into account a \$4.9 million reduction in accrued bonus expense to reflect the revised compensation program effective May 1, 1998 upon completion of the initial public offering in February 1999 and the related \$2.1 million increase in the provision for income taxes.

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

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

<TABLE>  
<CAPTION>

	Three Months Ended July 31,		
	1999	1998	
Proforma			
1998 (1)			
		(unaudited)	
<S>	<C>	<C>	<C>
Cash from operating activities:			
Net Income	\$ 5,604	\$ 1,519	\$
4,323			
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation	2,161	1,968	
1,968			
Amortization	202	239	
239			
Provision for doubtful accounts	2,625	1,276	
1,276			
Cash surrender value in excess of premiums paid	(52)	(107)	
(107)			
Change in other assets and liabilities, net of acquisitions:			
Deferred compensation	1,617	1,430	
1,430			
Receivables	(16,434)	(10,604)	
(10,604)			
Prepaid expenses	(1,885)	(1,024)	
(1,024)			
Income taxes payable	3,454	(3,767)	
(1,632)			
Accounts payable and accrued liabilities	(24,761)	(9,378)	
(14,317)			
Non-controlling shareholders' interests and other, net	34	(1,037)	
(1,037)			
Net cash used in operating activities	(27,435)	(19,485)	
(19,485)			

Cash from investing activities:			
Purchases of property and equipment	(3,621)	(2,481)	
(2,481)			
Sales of marketable securities	7,761	-	
-			
Business acquisitions, net of cash acquired	(1,825)	(1,323)	
(1,323)			
Premiums on life insurance	(2,908)	(1,431)	
(1,431)			
-----			----
Net cash used in investing activities	(593)	(5,235)	
(5,235)			
-----			----
Cash from financing activities:			
Increase in bank borrowings	-	10,000	
10,000			
Payment of debt	(274)	-	
-			
Borrowings under life insurance policies	983	908	
908			
Purchase of common and preferred stock and payments on related notes	(139)	(1,176)	
(1,176)			
Issuance of common stock and receipts on shareholders' notes	1,654	1,322	
1,322			
-----			----
Net cash provided by financing activities	2,224	11,054	
11,054			
-----			----
Effect of exchange rate changes on cash flows	249	(621)	
(621)			
-----			----
Net decrease in cash and cash equivalents	(25,555)	(14,287)	
(14,287)			
Cash and cash equivalents at beginning of the period	113,741	32,358	
32,358			
-----			----
Cash and cash equivalents at end of the period	\$ 88,186	\$ 18,071	\$
18,071			
=====			

</TABLE>

- (1) The proforma results for the three months ended July 31, 1998 take into account a \$4.9 million reduction in accrued bonus expense to reflect the revised compensation program effective May 1, 1998 upon completion of the initial public offering in February 1999 and the related \$2.1 million increase in the provision for income taxes.

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

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements for the three month periods ended July 31, 1999 and 1998 include the accounts of Korn/Ferry International, all of its wholly owned domestic and international subsidiaries, and affiliated companies in which the Company has effective control (collectively, the "Company") and are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of the results for these periods. These financial statements have been prepared consistently with the accounting policies described in the Company's fiscal year 1999 Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on July 28, 1999 and should be read in conjunction with this Quarterly Report on Form 10-Q.

Use of Estimates in the Preparation of Financial Statements



-----								
Diluted EPS								
Income available to common shareholders								
plus assumed conversions.....								
\$5,604	36,268	\$0.15	\$1,519	27,654	\$0.05	\$4,323		
27,654	\$0.16							
=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

The Company had 3,327 options outstanding at July 31, 1999 that were anti-dilutive and therefore, are excluded from the above reconciliation. The share amounts in the table above reflect a four-to-one stock split approved by the Board of Directors on July 24, 1998. The Company filed an amendment to the existing Articles of Incorporation to increase the authorized capital stock and effect the four-to-one split of the Common Stock on February 10, 1999. The financial statements have been retroactively restated for the effects of this split.

3. Comprehensive income

The Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," during its fiscal year ended April 30, 1998. Comprehensive income is comprised of net income and all changes to stockholders' equity, except those changes resulting from investments by owners (changes in paid in capital) and distributions to owners (dividends). SFAS 130 requires disclosure of the components of comprehensive income in interim periods.

Total comprehensive income is as follows:

<TABLE>		
<CAPTION>		
	Three months ended July 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Net income.....	\$5,604	\$ 1,519
Foreign currency translation adjustment.....	428	(1,094)
Related income tax benefit (provision).....	(179)	473
	-----	-----
Comprehensive income.....	\$5,853	\$ 898
	=====	=====

</TABLE>

4. Business segments

The Company operates in one industry segment, retained executive recruitment on a global basis. Management views the operations by line of business, executive search and Futurestep, and geography. For purposes of the geographic information below, Mexico's operating results are included in Latin America. In January 1998, the Company formed Futurestep, a 93 percent owned subsidiary, to provide Internet-based retained recruitment services for middle-management positions.

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

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

<TABLE>		
<CAPTION>		
	Three months ended July 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Revenues:		
Executive Search:		
North America.....	\$ 57,227	\$43,798
Europe.....	25,151	24,423
Asia/Pacific.....	11,139	8,221
Latin America.....	7,288	8,260
Futurestep.....	3,975	43
	-----	-----
Total revenues.....	\$104,780	\$84,745
	=====	=====

<CAPTION>

Three months ended July 31,  
-----

	1999	1998
	-----	-----
<S>	<C>	<C>
Operating Profit:		
Executive Search:		
North America.....	\$ 10,046	\$ 3,317
Europe.....	3,169	681
Asia/Pacific.....	1,055	262
Latin America.....	1,636	1,864
Futurestep.....	(5,661)	(2,483)
	-----	-----
Total operating profit.....	\$ 10,245	\$ 3,641
	=====	=====

<CAPTION>

	As of	As of
	July 31, 1999	April 30, 1999
	-----	-----
<S>	<C>	<C>
Identifiable assets (1):		
North America.....	\$195,055	\$211,901
Europe.....	56,709	54,910
Asia/Pacific.....	22,971	20,209
Latin America.....	16,875	17,104
	-----	-----
Total identifiable assets.....	\$291,610	\$304,124
	=====	=====

</TABLE>

(1) Corporate identifiable assets of \$115,067 and \$144,771 as of July 31, 1999 and April 30, 1999, respectively, are included in North America. Futurestep identifiable assets are not material.

#### 5. Acquisitions

On June 11, 1999, the Company completed the acquisition of Amrop International's Australian business for approximately \$3.2 million in cash payable over a four-year period and \$0.6 million in common stock. The acquisition has been accounted for as a purchase. Of the total purchase price of \$3.8 million, \$2.0 million represents deferred compensation. The fair market value of the net assets acquired was approximately \$0.2 million and \$1.6 million has been recorded as goodwill.

On July 29, 1999, the Company signed a letter of intent to acquire Levy-Kerson, a leading search firm specializing in the retail/fashion industry with revenues of approximately \$6.0 million for the year ended December 31, 1998. The purchase price is estimated to be approximately \$7.3 million payable in stock, notes and cash.

On September 8, 1999, the Company signed a letter of intent to acquire Pearson, Caldwell and Farnsworth, a California-based search firm focused on senior-level assignments for the financial services industry, with revenues of approximately \$3.2 million for the year ended December 31, 1998, for approximately \$4.3 million payable in cash, notes and stock.

On September 12, 1999, the Company signed a letter of intent to acquire the search and selection recruitment business of PA Consulting Group, a leading management, systems and technology consulting firm based in London for an amount, payable in cash or substantially all in cash, equal to 1.05 times trailing twelve months revenue,

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

estimated to be approximately \$35.0 million subject to finalization of financial statements. The purchase price is denominated in pounds sterling and the dollar amount may vary with fluctuations in the exchange rate.

All three pending acquisitions are expected to close in the second quarter of fiscal 2000 subject to completion of the Company's due diligence, negotiation and execution of definitive acquisition agreements, receipt of applicable regulatory approvals and absence of adverse changes in the financial condition of these businesses. These acquisitions will be accounted for as purchases and the fair market value of the net assets acquired in excess of the consideration, if any, will be recorded as goodwill.



Overview

Korn/Ferry International is the world's largest executive search firm and has the broadest global presence in the industry with 429 consultants based in 72 offices across 40 countries. The Company's clients are many of the world's largest and most prestigious public and private companies, middle-market and emerging growth companies as well as governmental and not-for-profit organizations. Almost half of the searches performed by the Company in fiscal 1999 were for board level, chief executive and other senior executive officer positions and approximately 43% of the Company's 4,151 clients were Fortune 500 companies. The Company has established strong client loyalty; more than 90% of the search assignments it performed in fiscal 1999 were on behalf of clients for whom it had conducted multiple assignments over the last three fiscal years.

On February 17, 1999, the Company completed the public offering of 11.8 million shares of its common stock at \$14.00 per share, approximately 10.0 million of which were sold by the Company, with the balance sold by certain selling shareholders of the Company. Net proceeds received by the Company from the offering were approximately \$124.3 million.

In May 1998, the Company introduced its Internet-based service, Futurestep. Futurestep combines the Company's search expertise with exclusive candidate assessment tools and the reach of the Internet to accelerate recruitment of candidates for middle-management positions. Futurestep's operating losses approximated \$12.6 million and \$0.8 million for fiscal 1999 and 1998, respectively, and are primarily related to compensation expense, start-up costs and advertising expense to promote and expand the business roll-out. The Company believes Futurestep will generate net operating losses through at least the end of fiscal 2000.

In March 1999, the Company completed its national roll-out of Futurestep expanding into the Midwest and Southwest regions of the United States. Futurestep launched its international roll-out in the United Kingdom in May 1999, Canada in June 1999 and plans to expand in other selected foreign markets in fiscal year 2000. As of July 31, 1999, approximately 350,000 candidates worldwide had completed a detailed on-line profile. In July 1999, Futurestep entered into its first global management recruitment agreement with Ernst & Young, LLP to provide a range of services in addition to middle-management recruitment including managing on-line job postings and campus recruitment programs.

As the largest global executive search firm, the Company believes it has the resources to be one of the leaders in the consolidation of the highly-fragmented search industry. The Company frequently evaluates opportunities to expand its business through acquisitions, and from time to time, the Company engages in discussions with potential targets. The Company views strategic acquisitions as a key component of its long term growth strategy and intends to pursue future acquisition opportunities. In June 1999, the Company completed the acquisition of the Australian business of Amrop International. The Company has also signed letters of intent with Levy-Kerson, a leading search firm specializing in the retail/fashion industry, Pearson, Caldwell and Farnsworth, a leading search firm focused on senior-level assignments for the financial services industry and PA Consulting Group, a leading management, systems and technology consulting firm based in London. See "Recent Events."

Results of Operations

The following table summarizes the results of the Company's operations for the three months ended July 31, 1999 and 1998 as a percentage of revenues.

<TABLE>  
<CAPTION>

	Three Months Ended July 31,		
	1999	1998	Proforma 1998 (1)
<S>	<C>	<C>	<C>
Revenues, net.....	100%	100%	100%
Compensation and benefits.....	62	66	60
General and administrative expenses .....	28	30	30
Operating profit (2).....	10	4	10
Net income .....	5	2	5

</TABLE>

(1) The proforma results for the three months ended July 31, 1998 take into account a \$4.9 million reduction in accrued bonus expense to reflect the revised compensation program effective May 1, 1998 upon completion of the initial public offering in February 1999 and the resulting \$2.1 million increase in the provision for income taxes.

(2) For the three months ended July 31, 1999, 1998, and proforma 1998,

operating profit as a percentage of revenues excluding Futurestep losses of \$5.7 million and \$2.5 million is 16%, 7% and 13%, respectively.

The Company experienced growth in executive search revenues in all geographic regions for the three months ended July 31, 1999, except for Latin America. The Company includes revenues generated from its Mexican operations with its operations in Latin America.

<TABLE>  
<CAPTION>

	Three Months Ended July 31,			
	1999		1998	
	Dollars	%	Dollars	%
<S>	<C>	<C>	<C>	<C>
Executive Search:				
North America.....	\$ 57,227	55%	\$43,798	52%
Europe.....	25,151	24	24,423	29
Asia/Pacific.....	11,139	10	8,221	9
Latin America.....	7,288	7	8,260	10
Futurestep.....	3,975	4	43	-
Revenues.....	\$104,780	100%	\$84,745	100%

</TABLE>

In the following comparative analysis, all percentages are calculated based on dollars in thousands.

Three Months Ended July 31, 1999 Compared to Three Months Ended July 31, 1998

#### Revenues

Revenues increased \$20.1 million, or 23.6%, to \$104.8 million for the three months ended July 31, 1999 from \$84.7 million for the three months ended July 31, 1998. The increase in revenues was primarily the result of a 21.5% increase in the number of engagements, an 11.0% increase in the average number of consultants and revenues from Futurestep in the current three month period.

In North America revenues increased \$13.4 million, or 30.7%, to \$57.2 million for the three months ended July 31, 1999 from \$43.8 million for the comparable period in the prior year. In Asia/Pacific, revenues increased \$2.9 million, or 35.5%, to \$11.1 million for the three months ended July 31, 1999 from \$8.2 million for the three months ended July 31, 1998. Revenue growth in North America and Asia/Pacific was attributable mainly to a 17.2% and 44.9% increase, respectively, in the number of engagements and an increase of 11.3% and 12.6%, respectively, in the average number of consultants. Revenues in Europe increased \$0.8 million, or 3.0%, to \$25.2 million for the three months ended July 31, 1999 from \$24.4 million for the comparable period in the prior year. The decline in revenues in Latin America of \$1.0 million, or 11.8%, to \$7.3 million for the three months ended July 31, 1999 from \$8.3 million for the comparable three month period in fiscal 1998 is attributable to continued economic uncertainty in that region. The Company believes the continued uncertainty in Latin America will not have a significant impact on revenues in the second quarter of fiscal 2000.

Futurestep revenue of \$4.0 million for the three months ended July 31, 1999 is primarily attributable to 120 new engagements and reflects completion of the roll-out of the North American operations at the end of prior fiscal year.

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#### Compensation and Benefits

Compensation and benefits expense increased \$8.6 million, or 15.4%, to \$64.7 million for the three months ended July 31, 1999 from \$56.1 million for the comparable period ended July 31, 1998 due primarily to an increase in the number of consultants offset by a \$6.5 million decrease in bonus expense in the most recent fiscal quarter under the revised compensation plan. On a proforma basis, compensation and benefits for the three months ended July 31, 1999 reflects a \$4.9 million reduction in bonus expense under the revised compensation program. The \$13.6 million increase for the three months ended July 31, 1999, including Futurestep expenses of \$2.3 million, versus the proforma three months ended July 31, 1998, reflects the 11.0% and 12.1% increase in the average number of consultants to 429 from 386 and average total employees to 1,578 from 1,408 for the three months ended July 31, 1999 over the comparable period in 1998. On a comparable basis, excluding Futurestep and reflecting the prior year three month period on a proforma basis, compensation and benefits expense as a percentage of revenues increased slightly to 61.2% in the most recent three month period from 59.5% in the proforma three months ended July 31, 1998.

## General and Administrative Expenses

General and administrative expenses consist of occupancy expense associated with the Company's leased premises, investments in information and technology infrastructure, marketing and other general office expenses. General and administrative expenses increased \$4.8 million, or 19.1%, to \$29.8 million for the three months ended July 31, 1999 from \$25.0 million for the comparable period ended July 31, 1998. This increase was attributable to Futurestep expenses of \$4.8 million, primarily related to advertising and business development in the current three month period. As a percentage of revenues, general and administrative expenses, excluding Futurestep related expenses, declined to 23.0% for the three months ended July 31, 1999 from 27.4% for the comparable period in 1998. The decrease primarily reflects the higher percentage increase in revenues and the elimination of excess costs in the current three month period resulting from office rationalization in late fiscal 1999.

## Operating Profit

Operating profit increased \$6.6 million in the three months ended July 31, 1999, to \$10.2 million, or 9.8% of revenues from \$3.6 million, or 4.3% of revenues in the prior year three month period. On a comparable basis, excluding the Futurestep loss of \$5.7 million and assuming the favorable impact of the new compensation plan in the three months ended July 31, 1998, operating profit for the three months ended July 31, 1999 increased \$4.8 million, or 43.8% to \$15.9 million compared to the three months ended July 31, 1998. Operating profit, on a comparable basis, as a percentage of revenues was 15.8% and 13.1% for the three months ended July 31, 1999 and 1998, respectively. For the current three month period, operating margins, on this same basis, increased in all regions except in Latin America compared to the prior year three month period due primarily to the increase in revenues and decline in general and administrative expense as a percentage of revenues.

The percentage of the Company's operating profit contributed by North America increased to 63.2% for the current three month period from 59.5% for the proforma three months ended July 31, 1998, driven primarily by both volume and consultant productivity. The Latin American region contribution decreased to 10.3% for the three months ended July 31, 1999 from 20.8% on a proforma basis for the comparable prior year period mainly due to the percentage decline in revenues commencing in the third quarter of fiscal 1999 while operating costs remained relatively constant. The percentage of the Company's operating profit contributed by the European and Asia/Pacific regions increased to approximately 19.9% and 6.6%, respectively, in the three months ended July 31, 1999 from 14.3% and 5.4%, respectively, in the proforma three months ended July 31, 1998, primarily reflecting the elimination of excess costs in late fiscal 1999 resulting from office rationalization.

## Interest and other income (expense)

Interest and other income (expense) includes interest income of \$1.3 million and \$0.7 million and interest expense of \$0.8 million and \$1.2 million for the three months ended July 31, 1999 and 1998, respectively. The increase in interest income of \$0.6 million and decrease in interest expense of \$0.4 million is due primarily to interest income earned on the investment of proceeds received in the initial public offering and a decrease in interest expense resulting from payment of the outstanding balance on bank borrowings upon consummation of the public offering.

## Provision for Income Taxes

The provision for income taxes increased \$3.2 million to \$4.6 million for the three months ended July 31, 1999 from \$1.4 million for the comparable period ended July 31, 1998. The effective tax rate was 42% for the current year three month period as compared to 43% for the prior year three month period.

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## Non-controlling Shareholders' Interests

Non-controlling shareholders' interests are comprised of the non-controlling shareholders' majority interests in the Company's Mexico subsidiaries and the controlling shareholders' interest in Futurestep in the prior year three month period. Non-controlling shareholders' interests increased \$0.4 million to \$0.7 million in the current three month period from \$0.3 million in the comparable prior year period. The increase primarily reflects an increase in net income generated by the Mexican subsidiaries in the three months ended July 31, 1999.

## Liquidity and Capital Resources

The Company maintained cash and cash equivalents of \$88.2 million as of July 31, 1999. During the three months ended July 31, 1999 and 1998, cash used in operating activities was \$27.4 million and \$19.5 million, respectively, primarily for payment of bonuses accrued at each prior fiscal year end. Included in the operating cash flows for the three months ended July 31, 1999, was

approximately \$0.7 million of cash used for non-recurring items consisting of severance and benefit payments related to staff downsizing, modification to existing stock repurchase agreements and office rationalization.

Capital expenditures totaled \$3.6 million and \$2.5 million for the three months ended July 31, 1999 and 1998, respectively. These expenditures consisted primarily of systems development costs, upgrades to information systems and leasehold improvements. The \$1.1 million increase in capital expenditures in the three months ended July 31, 1999 compared to the prior year three month period, primarily relates to installation of a new financial system. For the three months ended July 31, 1999, the new financial system expenditures of approximately \$1.6 million have been capitalized. The new financial system has an expected installation cost of approximately \$11.0 million over fiscal 2000 and 2001.

Included in cash flows from investing activities are premiums paid on corporate-owned life insurance ("COLI") contracts. The Company purchases COLI contracts to provide a funding vehicle for anticipated payments due under its deferred executive compensation programs. Premiums on these COLI contracts were \$2.9 million and \$1.4 million for the three months ended July 31, 1999 and 1998, respectively. Generally, the Company borrows against the available cash surrender value of the COLI contracts to fund the COLI premium payments to the extent interest expense on the borrowings is deductible for U.S. income tax purposes. The increase in premium payments is attributable to the purchase of additional policies for new and existing participants. The Company also sold \$7.8 million of marketable securities in the three months ended July 31, 1999.

On May 1, 1998, the Company acquired the assets and liabilities of Didier Vuchot & Associates in France for approximately \$6.0 million in cash, notes and mandatorily redeemable stock of a subsidiary of the Company. On June 1, 1998, the Company acquired all of the outstanding shares of Ray and Berndtson SA in Switzerland for \$3.6 million payable in cash, notes and mandatorily redeemable common stock of the Company. The acquisitions resulted in a net cash outflow of \$1.3 million, comprised of an initial \$2.5 million cash payment offset by \$1.2 million of cash acquired.

On June 11, 1999, the Company acquired the assets and liabilities of the Australian business of Amrop International for \$3.8 million, including deferred compensation of \$2.0 million, resulting in a net cash outflow of \$1.8 million.

Cash provided by financing activities was approximately \$2.2 million and \$11.1 million during the three months ended July 31, 1999 and 1998, respectively, which included borrowings under COLI contracts of \$1.0 million and \$0.9 million in the three months ended July 31, 1999 and 1998, respectively, and proceeds from sales of common stock of the Company to newly hired and promoted consultants and payments on the related promissory notes of \$1.7 million and \$1.3 million, respectively. Additionally, the Company paid \$0.1 million and \$1.2 million to repurchase common stock of the Company in the three months ended July 31, 1999 and 1998, respectively. During the three months ended July 31, 1998, the Company also borrowed \$10.0 million under its bank line of credit.

Total outstanding borrowings under life insurance policies were \$43.6 million and \$38.5 million for the three months ended July 31, 1999 and 1998, respectively. Such borrowings are secured by the cash surrender value of the life insurance policies, do not require principal payments and bear interest at various variable rates.

The Company believes that cash on hand, funds from operations and its credit facilities will be sufficient to meet its anticipated working capital, capital expenditures, and general corporate requirements for the foreseeable future.

#### Recent Events

On July 29, 1999, the Company signed a letter of intent to acquire Levy-Kerson, a leading search firm specializing in the retail/fashion industry with revenues of approximately \$6.0 million for the year ended December 31, 1998. The purchase price is estimated to be approximately \$7.3 million payable in stock, notes and cash.

On September 8, 1999, the Company signed a letter of intent to acquire Pearson, Caldwell and Farnsworth, a California-based search firm focused on senior-level assignments for the financial services industry, with revenues of approximately \$3.2 million for the year ended December 31, 1998, for approximately \$4.3 million payable in cash, notes and stock.

On September 12, 1999, the Company signed a letter of intent to acquire the search and selection recruitment business of PA Consulting Group, a leading management, systems and technology consulting firm based in London for an amount, payable in cash or substantially all in cash, equal to 1.05 times trailing twelve months revenue, estimated to be approximately \$35.0 million subject to finalization of financial statements. The purchase price is denominated in pounds sterling and the dollar amount may vary with fluctuations

in the exchange rate.

All three pending acquisitions are expected to close in the second quarter of fiscal 2000 subject to completion of the Company's due diligence, negotiation and execution of definitive acquisition agreements, receipt of applicable regulatory approvals and absence of adverse changes in the financial condition of these businesses. These acquisitions will be accounted for as purchases and the fair market value of the net assets acquired in excess of the consideration, if any, will be recorded as goodwill.

#### Year 2000 Compliance

The Year 2000 issue is the result of computer programs being written to use two digits to define year dates. Computer programs running date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This defect could result in systems failure or miscalculations causing disruptions of operations. The Company utilizes information technology to facilitate (i) its internal search processes and inter-office communications, (ii) communications with candidates and clients and (iii) its financial management systems and other support systems. The statements contained in this section are "Year 2000 Readiness Disclosures" as provided for in the Year 2000 Information and Readiness Disclosure Act.

The following scenarios with respect to the Company's systems could occur: (i) its software may not be Year 2000 compliant, (ii) integration of upgrades may not be complete by the year 2000 and (iii) replacement of its non-compliant systems may be complete by the year 2000 but not fully tested or monitored prior to the year 2000 such that testing and monitoring will uncover problems that the Company cannot remedy in a timely manner.

Failure of search-related systems to be Year 2000 compliant might force the Company to use different Year 2000 compliant systems to conduct searches and might decrease productivity. Any failure of the Company's financial systems to be Year 2000 compliant could hinder timely reporting of financial data and processing of financial information as these functions would have to be performed manually using non-networked computers. If any non-information technology systems is not Year 2000 compliant, the Company will need to repair or replace such systems. The Company believes that failure to be Year 2000 compliant will not have a significant impact on its human resource systems. The Company's interruption or loss of information processing capabilities due to Year 2000 issues could have a material adverse effect on the Company's business, results of operations and financial condition.

In fiscal 1999, the Company completed an inventory and Year 2000 assessment of its principal computer systems, network elements, software applications and other business systems. The Company incurred costs of approximately \$0.3 million through July 31, 1999 to resolve Year 2000 issues and expects to incur approximately \$0.2 million to \$0.3 million of additional costs in fiscal 2000. Expenses incurred on the Year 2000 issues are being funded through operating cash flows. The Company estimates full compliance by October 31, 1999. The costs relating to the Year 2000 issues and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. Actual results could differ materially from those anticipated.

The Company's primary business does not depend on material relationships with third party vendors but utilizes third party vendors for a number of functions, including its automated payroll functions, insurance and investment of pension funds. The Company is initiating formal communications with third party providers to determine the extent to which these third parties are moving toward Year 2000 compliance. The Company also utilizes third party on-line

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information services and the Internet to communicate and to retrieve information about potential candidates and clients. Failure of these third parties to have their systems Year 2000 compliant may have a material adverse effect on the Company's operations.

The Company is in the process of developing a disaster recovery plan that includes the implementation of alternative services in the event of a business disruption. The plan is intended to address critical resources for the Company and key resources for its remote offices, including interruptions that are the result of problems arising from the Year 2000 issue. During and after any disaster, these back-up solutions are intended to serve as temporary replacements for the Company's e-mail, Internet access and proprietary applications, which are integral to the Company's business. The Company intends to have its disaster recovery plan completed by October 31, 1999 and to have the plan fully implemented and tested for readiness of usage during December 1999.

#### Euro Conversion

As of January 1, 1999, several member countries of the European Union

established fixed conversion rates among their existing local currencies, and adopted the Euro as their new common legal currency. The Euro trades on currency exchanges and the legacy currencies will remain legal tender in the participating countries for a transition period which expires January 1, 2002. The conversion to the Euro has not had a significant impact on the Company's operations to date.

During the transition period, cashless payments can be made in the Euro, and parties can elect to pay for goods and services and transact business using either the Euro or a legacy currency. Between January 1, 2002 and July 1, 2002, the participating countries will introduce Euro notes and coins and withdraw all legacy currencies so that they will no longer be available.

The Company is currently assessing its information technology systems to determine whether they allow for transactions to take place in both the legacy currencies and the Euro and accommodate the eventual elimination of the legacy currencies. The Company's currency risk may be reduced as the legacy currencies are converted to the Euro. Accounting, tax and governmental legal and regulatory guidance generally has not been provided in final form and the Company will continue to evaluate issues involving introduction of the Euro throughout the transition period. The conversion to the Euro has not had a significant impact on the Company's operations to date.

#### Recently Issued Accounting Standards

During 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") which establishes new standards for reporting derivative and hedging information. FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133," in 1999, which deferred the effective date of SFAS 133 for one year. The standard is effective for periods beginning after June 15, 2000 and will be adopted by the Company as of May 1, 2001. It is not expected that the adoption of this standard will have any impact on the consolidated financial statements nor require additional footnote disclosure since the Company does not currently utilize derivative instruments or participate in structured hedging activities.

#### Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report on Form 10-Q contain forward looking statements that are based on the current beliefs and expectations of the Company's management, as well as assumptions made by, and information currently available to, the Company's management. Such statements include those regarding general economic and executive search industry trends. Because such statements involve risks and uncertainties, actual actions and strategies and the timing and expected results thereof may differ materially from those expressed or implied by such forward-looking statements, and the Company's future results, performance or achievements could differ materially from those expressed in, or implied by, any such forward-looking statements. Future events and actual results could differ materially from those set forth in or underlying the forward-looking statements.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted. These potential risks and uncertainties include, but are not limited to, dependence on attracting and retaining qualified executive search consultants, portability of client relationships, risks associated with global operations, ability to manage growth, restrictions imposed by off-limits agreements, competition, implementation of an acquisition strategy, risks related to the development and growth of Futurestep, reliance on information processing systems and the impact

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of Year 2000 issues, and employment liability risk. In addition to the factors noted above, other risks, uncertainties, assumptions, and factors that could affect the Company's financial results are referenced in the Company's fiscal year 1999 Annual Report on Form 10-K as filed with the SEC on July 28, 1999 and should be read in conjunction with this Quarterly Report on Form 10-Q.

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### Currency Market Risk

As a result of its global operating activities, the Company is exposed to certain market risks including changes in foreign currency fluctuations, fluctuations in interest rate and variability in interest rate spread relationships. The Company manages its exposure to these risks in the normal course of its business as described below. The Company has not utilized financial instruments for trading or other speculative purposes nor does it trade in derivative financial instruments.

##### Foreign Currency Risk

Historically, the Company has not experienced any significant translation gains or losses on transactions involving U.S. dollars and other currencies. This is primarily due to natural hedges of revenues and expenses in the functional currencies of the countries in which its offices are located and investment of excess cash balances in U.S. dollar denominated accounts.

#### Interest Rate Risk

The Company primarily manages its exposure to fluctuations in interest rates through its regular financing activities that generally are short term and provide for variable market rates. The Company has no outstanding balance on either its term loan and revolving line of credit. As of July 31, 1999, the Company had outstanding borrowings of \$43.6 million against the cash surrender value of COLI contracts bearing interest at various variable rates payable at least annually and \$1.6 million of long-term notes payable to former shareholders payable through fiscal 2004 at variable market rates. The Company has investments of approximately \$85.9 million in interest bearing securities at market rates with original maturities ranging from August 1999 to October 2001.

The Company has not experienced a material change in its primary market risk exposures or how those exposures are managed compared to what was in effect as of the fiscal year ended April 30, 1999.

#### PART II. OTHER INFORMATION

##### Item 2. Changes in Securities and Use of Proceeds

###### (a) Changes in Securities

None.

###### (b) Use of Proceeds

From May 1, 1999 until July 31, 1999, approximately \$25 million of the net proceeds to the Company from the Company's February 1999 initial public offering was used for working capital and acquisitions of which \$23.2 million was used primarily for fiscal 1999 bonus payments in the ordinary course of business and \$1.8 million was used to complete acquisition of the Australian business of Amrop International Australia.

##### Item 5. Other Information

On September 12, 1999, the Company signed a letter of intent to acquire the search and selection recruitment business of PA Consulting Group, a leading management, systems and technology consulting firm based in London, for an amount in cash or substantially all in cash equal to 1.05 times trailing twelve months revenue, estimated to be approximately \$35.0 million subject to finalization of financial statements. The purchase price is denominated in pounds sterling and the dollar amount may vary with fluctuations in the exchange rate. The Company intends to fund the acquisition with currently available cash. Consummation of the proposed transaction is subject to approval by the Company's Board of Directors, completion of the Company's due diligence, negotiation and execution of a definitive acquisition agreement, receipt of applicable regulatory approvals and absence of adverse changes in the financial condition of the search and selection recruitment business.

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##### Item 6. Exhibits and Reports on Form 8-K

###### (a) Exhibits

Exhibit Number	Description of Exhibit
10.1*	First Amendment to Stock Purchase Agreement between the Company, Richard M. Ferry, Henry B. Turner and Peter W. Mullin (as trustees of the Richard M. Ferry and Maude M. Ferry 1972 Children's Trust), the California Community Foundation and Richard M. Ferry Co-trustees, and the California Community Foundation dated June 2, 1995.
27.1	Financial Data Schedule for the three months ended July 31, 1999

\* Management contract, compensatory plan or arrangement

###### (b) Reports on Form 8-K

None.

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SIGNATURE

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

KORN/FERRY INTERNATIONAL

Date: September 14, 1999

By: /s/ Elizabeth S.C.S. Murray

-----  
Elizabeth S.C.S. Murray  
Chief Financial Officer and  
Executive Vice President

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EXHIBIT INDEX

Exhibit Number -----	Description of Exhibit -----
10.1*	First Amendment to Stock Purchase Agreement between the Company, Richard M. Ferry, Henry B. Turner and Peter W. Mullin (as trustees of the Richard M. Ferry and Maude M. Ferry 1972 Children's Trust), the California Community Foundation and Richard M. Ferry Co-trustees, and the California Community Foundation dated June 2, 1995.
27.1	Financial Data Schedule for the three months ended July 31, 1999

\* Management contract, compensatory plan or arrangement

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FIRST AMENDMENT  
TO  
STOCK PURCHASE AGREEMENT  
DATED JUNE 2, 1995

This FIRST AMENDMENT (this "First Amendment") is entered into as of April 25, 1999, by and among Korn/Ferry International, a California corporation (the "Company"), Richard M. Ferry, as an individual ("Ferry"), Henry B. Turner and Peter W. Mullin, Trustees (collectively, the "Trustees") of the Richard M. Ferry and Maude M. Ferry 1972 Children's Trust (the "Trust"), California Community Foundation and Richard M. Ferry Co-Trustees (collectively, the "Co-Trustees") and the California Community Foundation (the "Foundation").

R E C I T A L S

WHEREAS, the Company, Ferry, the Trustees, the Trust, the Co-Trustees and the Foundation (collectively, the "Parties") entered into a Stock Purchase Agreement as of the 2nd day of June, 1995 (the "1995 Agreement") that provides, among other things, for the Company to repurchase shares of the Company's common stock, no par value per share (the "Common Stock") owned by Ferry and the Trust at Ferry's death (as defined in the 1995 Agreement, the "Ferry Stock");

WHEREAS, the Company has completed an initial public offering ("IPO") of the Common Stock;

WHEREAS, the Trust, the Co-Trustees and the Foundation are no longer shareholders of the Company;

WHEREAS, effective upon consummation of the IPO, the shares of Common Stock owned by Ferry immediately prior to consummation of the IPO (other than shares of Common Stock held in the Company's 401(k) Plan for the benefit of Ferry), plus any shares of Common Stock thereafter distributed to Ferry out of the 401(k) Plan (collectively, the "Shares"), became subject to a Stock Repurchase Agreement dated as of February 5, 1999 (the "1999 Agreement") with the Company that provides, among other things, for the restricted sale, transfer or disposition of the Shares, but removes any such restrictions upon the death of Ferry;

WHEREAS, the effectiveness of the 1999 Agreement eliminated the necessity for the Company to purchase all of the Ferry Stock upon the death of Ferry;

WHEREAS, the Company, Ferry, the Trustees, the Trust, the Co-Trustees and the Foundation desire to amend the 1995 Agreement to: (i) eliminate in its entirety the obligation of the Company to purchase all of the Ferry Stock from Ferry and the Trust upon the death of Ferry; (ii) eliminate in its entirety the obligation of Ferry and the Trust to sell all of the Ferry Stock to the Company upon the death of Ferry; and (iii) permit Ferry and/or the Trust or their joint designee to purchase any or all of the insurance policies maintained by the Company under the 1995 Agreement; and

WHEREAS, the Board of Directors of the Company, acting pursuant to Section 310 of the California General Corporation Law, has authorized by a vote sufficient without counting the vote of Ferry, who abstained from the vote on such proposal, the amendment of the 1995 Agreement to: (i) eliminate in its entirety the obligation of the Company to purchase all of the Ferry Stock from Ferry and the Trust upon the death of Ferry; (ii) eliminate in its entirety the obligation of Ferry and the Trust to sell all of the Ferry Stock to the Company upon the death of Ferry; and (iii) permit Ferry and/or the Trust or their joint designee to purchase any or all of the insurance policies maintained by the Company under the 1995 Agreement.

NOW, THEREFORE, BE IT RESOLVED, that the Parties hereto agree as follows:

I. Paragraph 2 of the 1995 Agreement entitled "PURCHASE OF THE INSURANCE POLICIES", shall be amended to permit Ferry and/or the Trust or their joint designee to purchase any or all of the insurance policies maintained by the Company under the 1995 Agreement by adding thereto a new subparagraph (e) as follows:

"(e) Notwithstanding anything in this Agreement to the contrary, Ferry and/or the Trust or any person or entity jointly designated by Ferry and the Trust shall have the absolute right at their respective sole option to purchase any or all of the Insurance Policies referred to in this Agreement at the "Insurance Policy Book Value" of each such Policy purchased, to be paid in cash. The determination as to which of Ferry, the Trust or any designee of Ferry and the Trust shall have the right to purchase an Insurance Policy shall be a matter between Ferry and the Trust, shall be of no concern to the Company, and the Company shall only be required to sell an Insurance Policy if it receives a concurrent and unanimous direction from Ferry and the Trust. This

Agreement and the rights and obligations of the parties under this Agreement, including the rights under this paragraph 2(e) of Ferry and the Trust or any designee of Ferry and the Trust, shall terminate and have no further force and effect upon the earlier to occur of (1) the purchase by Ferry and/or the Trust or any person or entity jointly designated by Ferry and the Trust of all of the Insurance Policies referred to in this Agreement or (2) November 17, 1999."

II. Paragraph 3 of the 1995 Agreement shall be deleted in its entirety to eliminate the obligation of the Company to purchase all of the Ferry Stock from Ferry and the Trust upon the death of Ferry.

III. Paragraphs 4, 5, 6, 7 and 8 of the 1995 Agreement shall be deleted in their entirety because they are no longer applicable.

Except for the changes indicated above in this First Amendment, all other provisions of the Agreement not amended, deleted or replaced hereby, shall remain in full force and effect.

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

KORN/FERRY INTERNATIONAL,  
a California corporation

Address:  
Korn/Ferry International  
1800 Century Park East, Suite 900  
Los Angeles, California 90067

By: /s/ Peter L. Dunn  
-----  
Peter L. Dunn

By: /s/ Elizabeth S.C.S. Murray  
-----  
Elizabeth S.C.S. Murray

Address:  
Korn/Ferry International  
1800 Century Park East, Suite 900  
Los Angeles, California 90067

/s/ Richard M. Ferry  
-----  
RICHARD M. FERRY

RICHARD M. FERRY AND MAUDE M.  
FERRY 1972 CHILDREN'S TRUST

Address:  
6116 Yucca  
Paradise Valley, Arizona 85253

By: /s/ Henry B. Turner  
-----  
HENRY B. TURNER, Trustee of the  
Richard Ferry and Maude M. Ferry 1972  
Children's Trust

Address:  
Mullin Consulting, Inc.  
644 South Figueroa Street  
Los Angeles, California 90017

By: /s/ Peter W. Mullin  
-----  
PETER W. MULLIN, Trustee of the  
Richard Ferry and Maude M. Ferry 1972  
Children's Trust

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CALIFORNIA COMMUNITY  
FOUNDATION AND RICHARD M. FERRY  
CO-TRUSTEES

Address:  
Korn/Ferry International  
1800 Century Park East, Suite 900  
Los Angeles, California 90067

By: /s/ Richard M. Ferry  
-----  
RICHARD M. FERRY, Co-Trustee

Address:  
California Community Foundation  
606 South Olive Street, Suite 2400  
Los Angeles, California 90014

By: /s/ Jack Shakley  
-----  
JACK SHAKELY, Co-Trustee  
  
CALIFORNIA COMMUNITY  
FOUNDATION

Address:

By: /s/ Jack Shakley

California Community Foundation  
606 South Olive Street, Suite 2400  
Los Angeles, California 90014

-----  
Jack Shakely President  
-----  
(Print Name) (Title)

RATIFICATION AND CONSENT  
-----

I, MAUDE M. FERRY, the wife of RICHARD M. FERRY, hereby certify that I have read the foregoing First Amendment to Stock Purchase Agreement dated June 2, 1995 and that I hereby approve said First Amendment to Stock Purchase Agreement dated June 2, 1995 and agree to be bound thereby.

/s/ Maude M. Ferry  
-----  
MAUDE M. FERRY

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM KORN/FERRY INTERNATIONAL AND SUBSIDIARIES FOR THE THREE MONTHS ENDED JULY 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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</FN>

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