

HALF ROBERT INTERNATIONAL INC /DE/  
Form 10-Q  
August 03, 2012

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**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 1-10427**

**ROBERT HALF INTERNATIONAL INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-1648752**  
(I.R.S. Employer  
Identification No.)

**2884 Sand Hill Road**  
**Suite 200**

**Menlo Park, California**  
(Address of principal executive offices)

**94025**  
(zip-code)

**Registrant's telephone number, including area code: (650) 234-6000**

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, or a smaller reporting company. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of July 31, 2012:

141,803,257 shares of \$.001 par value Common Stock

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands, except share amounts)

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Cash and cash equivalents  | \$ 258,578       | \$ 279,336           |
| Accounts receivable, less allowances of \$24,725 and \$22,627  | 531,848          | 493,327              |
| Current deferred income taxes  | 101,636          | 88,578               |
| Other current assets   | 148,602          | 145,437              |
| Total current assets   | 1,040,664        | 1,006,678            |
| Goodwill   | 190,388          | 189,423              |
| Other intangible assets, net   | 567              | 50                   |
| Property and equipment, net  | 105,504          | 107,972              |
| Other assets   | 7,276            | 7,713                |
| Total assets   | \$ 1,344,399     | \$ 1,311,836         |
| <b>LIABILITIES</b>   |                  |                      |
| Accounts payable and accrued expenses  | \$ 123,706       | \$ 117,596           |
| Accrued payroll costs and retirement obligations   | 346,769          | 355,294              |
| Income taxes payable   | 25,728           |                      |
| Current portion of notes payable and other indebtedness  | 114              | 111                  |
| Total current liabilities  | 496,317          | 473,001              |
| Notes payable and other indebtedness, less current portion   | 1,487            | 1,545                |
| Other liabilities  | 37,235           | 36,785               |
| Total liabilities  | 535,039          | 511,331              |
| Commitments and Contingencies (Note G)   |                  |                      |
| <b>STOCKHOLDERS EQUITY</b>   |                  |                      |
| Preferred stock, \$.001 par value authorized 5,000,000 shares; issued and outstanding zero shares                              |                  |                      |
| Common stock, \$.001 par value authorized 260,000,000 shares; issued and outstanding 141,685,589 shares and 142,085,533 shares | 142              | 142                  |
| Capital surplus  | 770,711          | 759,476              |
| Accumulated other comprehensive income   | 38,507           | 40,887               |
| Retained earnings  |                  |                      |
| Total stockholders equity  | 809,360          | 800,505              |
| Total liabilities and stockholders equity  | \$ 1,344,399     | \$ 1,311,836         |

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |              |
|---|--------------------------------|------------|------------------------------|--------------|
|   | 2012                           | 2011       | 2012                         | 2011         |
| Net service revenues  | \$ 1,028,383                   | \$ 937,966 | \$ 2,043,827                 | \$ 1,818,835 |
| Direct costs of services, consisting of payroll, payroll taxes, insurance costs and reimbursable expenses | 613,080                        | 565,678    | 1,226,441                    | 1,108,458    |
| Gross margin  | 415,303                        | 372,288    | 817,386                      | 710,377      |
| Selling, general and administrative expenses  | 343,264                        | 311,202    | 665,282                      | 604,888      |
| Amortization of intangible assets   | 52                             | 40         | 87                           | 79           |
| Interest income, net  | (285)                          | (238)      | (519)                        | (450)        |
| Income before income taxes  | 72,272                         | 61,284     | 152,536                      | 105,860      |
| Provision for income taxes  | 26,943                         | 24,859     | 58,873                       | 42,730       |
| Net income  | \$ 45,329                      | \$ 36,425  | \$ 93,663                    | \$ 63,130    |
| Net income available to common stockholders diluted   | \$ 45,101                      | \$ 35,890  | \$ 93,171                    | \$ 62,194    |
| Net income per share (Note J):  |                                |            |                              |              |
| Basic   | \$ .33                         | \$ .25     | \$ .67                       | \$ .44       |
| Diluted   | \$ .32                         | \$ .25     | \$ .67                       | \$ .43       |
| Shares:   |                                |            |                              |              |
| Basic   | 138,588                        | 141,286    | 138,986                      | 141,966      |
| Diluted   | 139,739                        | 142,585    | 140,036                      | 143,357      |
| Cash dividends declared per share   | \$ .15                         | \$ .14     | \$ .30                       | \$ .28       |

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The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(in thousands)

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2012</b>                            | <b>2011</b> | <b>2012</b>                          | <b>2011</b> |
| <b>COMPREHENSIVE INCOME:</b>                         |  |             |                                      |             |
| Net income   | \$ 45,329                              | \$ 36,425   | \$ 93,663                            | \$ 63,130   |
| Foreign currency translation adjustments, net of tax | (6,452)                                | 3,581       | (2,380)                              | 11,014      |
| Total comprehensive income                           | \$ 38,877                              | \$ 40,006   | \$ 91,283                            | \$ 74,144   |

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The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(in thousands, except per share amounts)

|  | Six Months Ended<br>June 30, |            |
|--|------------------------------|------------|
|  | 2012                         | 2011       |
| <b>COMMON STOCK SHARES:</b>                          |                              |            |
| Balance at beginning of period                       | 142,086                      | 146,183    |
| Net issuances of restricted stock                    | 1,240                        | 1,265      |
| Repurchases of common stock                          | (3,484)                      | (3,151)    |
| Exercises of stock options                           | 1,844                        | 584        |
| Balance at end of period                             | 141,686                      | 144,881    |
| <b>COMMON STOCK PAR VALUE:</b>                       |                              |            |
| Balance at beginning of period                       | \$ 142                       | \$ 146     |
| Net issuances of restricted stock                    | 1                            | 1          |
| Repurchases of common stock                          | (3)                          | (3)        |
| Exercise of stock options                            | 2                            | 1          |
| Balance at end of period                             | \$ 142                       | \$ 145     |
| <b>CAPITAL SURPLUS:</b>                              |                              |            |
| Balance at beginning of period                       | \$ 759,476                   | \$ 787,105 |
| Net issuances of restricted stock at par value       | (1)                          | (1)        |
| Repurchases of common stock excess over par value    | (7,714)                      | (28,412)   |
| Cash dividends (\$.30 per share and \$.28 per share) | (42,614)                     | (40,976)   |
| Stock-based compensation expense                     | 20,205                       | 25,447     |
| Exercises of stock options excess over par value     | 35,389                       | 13,692     |
| Tax impact of equity incentive plans                 | 5,970                        | 1,496      |
| Balance at end of period                             | \$ 770,711                   | \$ 758,351 |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>       |                              |            |
| Balance at beginning of period                       | \$ 40,887                    | \$ 47,120  |
| Foreign currency translation adjustments, net of tax | (2,380)                      | 11,014     |
| Balance at end of period                             | \$ 38,507                    | \$ 58,134  |
| <b>RETAINED EARNINGS:</b>                            |                              |            |
| Balance at beginning of period                       | \$                           | \$         |
| Net income   | 93,663                       | 63,130     |
| Repurchases of common stock excess over par value    | (93,663)                     | (63,130)   |
| Balance at end of period                             | \$                           | \$         |

are an integral part of these financial statements.



## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|   | Six Months Ended<br>June 30, |                   |
|---|------------------------------|-------------------|
|   | 2012                         | 2011              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                              |                   |
| Net income  | \$ 93,663                    | \$ 63,130         |
| Adjustments to reconcile net income to net cash provided by operating activities:                           |                              |                   |
| Amortization of intangible assets   | 87                           | 79                |
| Depreciation expense  | 24,280                       | 25,703            |
| Stock-based compensation expense restricted stock and stock units   | 20,205                       | 25,447            |
| Excess tax benefits from stock-based compensation   | (2,895)                      | (944)             |
| Provision for deferred income taxes   | (13,973)                     | (6,781)           |
| Provision for doubtful accounts receivable  | 4,644                        | 2,309             |
| Changes in assets and liabilities:  |                              |                   |
| Increase in accounts receivable   | (44,317)                     | (65,517)          |
| (Decrease) increase in accounts payable, accrued expenses, accrued payroll costs and retirement obligations | (3,114)                      | 17,479            |
| Increase in income taxes payable  | 38,650                       | 28,770            |
| Change in other assets, net of change in other liabilities  | (1,944)                      | (1,793)           |
| <b>Net cash flows provided by operating activities</b>  | <b>115,286</b>               | <b>87,882</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                              |                   |
| Payment for acquisitions, net of cash acquired  | (1,484)                      |                   |
| Capital expenditures  | (24,211)                     | (28,375)          |
| Increase in trusts for employee benefits and retirement plans   | (3,596)                      | (2,785)           |
| <b>Net cash flows used in investing activities</b>  | <b>(29,291)</b>              | <b>(31,160)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                              |                   |
| Repurchases of common stock   | (101,380)                    | (91,545)          |
| Cash dividends paid   | (41,874)                     | (40,307)          |
| Increase in notes payable and other indebtedness  | (55)                         | (60)              |
| Excess tax benefits from stock-based compensation   | 2,895                        | 944               |
| Proceeds from exercises of stock options  | 35,391                       | 13,693            |
| <b>Net cash flows used in financing activities</b>  | <b>(105,023)</b>             | <b>(117,275)</b>  |
| Effect of exchange rate changes on cash and cash equivalents  | (1,730)                      | 6,487             |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(20,758)</b>              | <b>(54,066)</b>   |
| Cash and cash equivalents at beginning of period  | 279,336                      | 315,137           |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 258,578</b>            | <b>\$ 261,071</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>   |                              |                   |
| Cash paid during the period for:  |                              |                   |
| Interest  | \$ 208                       | \$ 273            |
| Income taxes, net of refunds  | \$ 35,507                    | \$ 19,251         |

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2012

**Note A Summary of Significant Accounting Policies**

*Nature of Operations.* Robert Half International Inc. (the Company) provides specialized staffing and risk consulting services through such divisions as *Accountemps*<sup>®</sup>, *Robert Half*<sup>®</sup> *Finance & Accounting*, *OfficeTeam*<sup>®</sup>, *Robert Half*<sup>®</sup> *Technology*, *Robert Half*<sup>®</sup> *Management Resources*, *Robert Half*<sup>®</sup> *Legal*, *The Creative Group*<sup>®</sup>, and *Protiviti*<sup>®</sup>. The Company, through its *Accountemps*, *Robert Half Finance & Accounting*, and *Robert Half Management Resources* divisions, is a specialized provider of temporary, full-time, and project professionals in the fields of accounting and finance. *OfficeTeam* specializes in highly skilled temporary administrative support personnel. *Robert Half Technology* provides information technology professionals. *Robert Half Legal* provides temporary, project, and full-time staffing of attorneys and specialized support personnel within law firms and corporate legal departments. *The Creative Group* provides project staffing in the advertising, marketing, and web design fields. *Protiviti* provides business consulting and internal audit services, and is a wholly owned subsidiary of the Company. Revenues are predominantly derived from specialized staffing services. The Company operates in North America, South America, Europe, Asia and Australia. The Company is a Delaware corporation.

*Basis of Presentation.* The unaudited Condensed Consolidated Financial Statements ( Financial Statements ) of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ) and the rules of the Securities and Exchange Commission ( SEC ). The comparative year-end condensed consolidated statement of financial position data presented was derived from audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial position and results of operations for the periods presented have been included. These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2011, included in its annual report on Form 10-K. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for a full year.

*Principles of Consolidation.* The Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances have been eliminated.

*Use of Estimates.* The preparation of 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 revenues and expenses during the reporting period. As of June 30, 2012, such estimates included allowances for uncollectible accounts receivable, workers' compensation losses, and income and other taxes. Management estimates are also utilized in the Company's goodwill impairment assessment.

*Advertising Costs.* The Company expenses all advertising costs as incurred. Advertising costs for the three and six months ended June 30, 2012 and 2011, are reflected in the following table (in thousands):

|                   | Three Months Ended |           | Six Months Ended |           |
|-------------------|--------------------|-----------|------------------|-----------|
|                   | June 30,           |           | June 30,         |           |
|                   | 2012               | 2011      | 2012             | 2011      |
| Advertising costs | \$ 11,290          | \$ 10,384 | \$ 21,226        | \$ 19,750 |

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

June 30, 2012

**Note A Summary of Significant Accounting Policies (Continued)**

*Internal-use Software.* The Company capitalizes direct costs incurred in the development of internal-use software. Amounts capitalized are reported as a component of computer software within property and equipment. Internal-use software development costs capitalized for the three and six months ended June 30, 2012 and 2011 are reflected in the following table (in thousands):

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2012                           | 2011     | 2012                         | 2011     |
| Internal-use software development costs | \$ 4,984                       | \$ 4,735 | \$ 9,681                     | \$ 7,993 |

**Note B New Accounting Pronouncements**

*Balance Sheet Disclosures.* In December 2011, the Financial Standards Board ( FASB ) issued authoritative guidance in regards to the presentation of netting assets and liabilities of financial and derivative instruments as a single amount in the statement of financial position to address the difference between GAAP and international financial reporting standards ( IFRS ). This authoritative guidance is to be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not expect the adoption of this guidance to have a material effect on its Financial Statements.

*Comprehensive Income.* In June 2011, the FASB issued authoritative guidance which allows an entity the option to present net income, and comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. This authoritative guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Except for presentation requirements, the adoption of this guidance as of March 31, 2012, did not have an impact on the Company s Financial Statements. In December 2011, the FASB issued authoritative guidance to defer only those changes related to the presentation of reclassification adjustments. The amendments are being made to allow the FASB time to reconsider whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

**Note C Other Current Assets**

Other current assets consisted of the following (in thousands):

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Deposits in trusts for employee benefits and retirement plans | \$ 91,928        | \$ 87,646            |
| Other   | 56,674           | 57,791               |
|   | \$ 148,602       | \$ 145,437           |

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

June 30, 2012

**Note D Goodwill**

The following table sets forth the activity in goodwill from December 31, 2011, through June 30, 2012 (in thousands):

|  | <b>Goodwill</b> |
|--|-----------------|
| Balance as of December 31, 2011          | \$ 189,423      |
| Acquisitions                             | 947             |
| Foreign currency translation adjustments | 18              |
| Balance as of June 30, 2012              | \$ 190,388      |

**Note E Property and Equipment, Net**

Property and equipment consisted of the following (in thousands):

|                              | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------|--------------------------|------------------------------|
| Computer hardware            | \$ 125,951               | \$ 122,619                   |
| Computer software            | 259,773                  | 249,843                      |
| Furniture and equipment      | 115,850                  | 108,917                      |
| Leasehold improvements       | 116,842                  | 113,972                      |
| Other                        | 12,997                   | 15,143                       |
| Property and equipment, cost | 631,413                  | 610,494                      |
| Accumulated depreciation     | (525,909)                | (502,522)                    |
| Property and equipment, net  | \$ 105,504               | \$ 107,972                   |

**Note F Accrued Payroll Costs and Retirement Obligations**

Accrued payroll costs and retirement obligations consisted of the following (in thousands):

|                                 | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------------------|--------------------------|------------------------------|
| Payroll and benefits            | \$ 203,810               | \$ 181,035                   |
| Employee retirement obligations | 88,349                   | 87,031                       |
| Workers compensation            | 27,680                   | 24,217                       |
| Payroll taxes                   | 26,930                   | 63,011                       |
|                                 | \$ 346,769               | \$ 355,294                   |

Included in employee retirement obligations is the following (in thousands):

|  | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|--------------------------|------------------------------|
| Deferred compensation plan and other benefits related to the Company's Chief Executive Officer | \$ 72,447                | \$ 71,603                    |

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

June 30, 2012

**Note G Commitments and Contingencies**

The Company's prior filings contained disclosures regarding three lawsuits against the Company filed in the California Superior Court: one by Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers; one by Plaintiff Isabel Apolinario, on behalf of herself and a putative class of salaried Account Executives and Staffing Managers; and one by Plaintiff Van Williamson, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers. As previously reported by the Company, the Company believes it has meritorious defenses to the allegations and has vigorously defended against each litigation. As disclosed in the Company's Current Report on Form 8-K dated April 24, 2012, and its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012, these cases were set for voluntary mediation on June 18, 2012. On July 5, 2012, the parties to these lawsuits entered into a Memorandum of Agreement, which is expected to settle and resolve all claims. The settlement resulted in a pre-tax charge to second quarter 2012 Selling, General and Administrative expenses of \$19.0 million and a net after-tax charge to second quarter 2012 Net Income of approximately \$11.4 million. The actual settlement of the cases is contingent upon the execution of a formal written settlement agreement approved by the courts. Based on the settlement terms contained in the Memorandum of Agreement, the Company has determined that these cases are not currently material pending legal proceedings. Accordingly, the Company does not presently intend to make disclosures regarding these cases in its future Securities and Exchange Commission filings.

On April 23, 2010, Plaintiffs David Opalinski and James McCabe, on behalf of themselves and a putative class of similarly situated Staffing Managers, filed a Complaint in the United States District Court for the District of New Jersey naming the Company and one of its subsidiaries as Defendants. The Complaint alleges that salaried Staffing Managers located throughout the U.S. have been misclassified as exempt from the Fair Labor Standards Act's overtime pay requirements. Plaintiffs seek an unspecified amount for unpaid overtime on behalf of themselves and the class they purport to represent. Plaintiffs also seek an unspecified amount for statutory penalties, attorneys' fees and other damages. On October 6, 2011, the Court granted the Company's motion to compel arbitration of the Plaintiffs' allegations. At this stage, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from these allegations and, accordingly, no amounts have been provided in the Company's financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the allegations.

The Company is involved in a number of other lawsuits arising in the ordinary course of business. While management does not expect any of these other matters to have a material adverse effect on the Company's results of operations, financial position or cash flows, litigation is subject to certain inherent uncertainties.

Legal costs associated with the resolution of claims, lawsuits and other contingencies are expensed as incurred.

**Note H Stockholders' Equity**

*Stock Repurchase Program.* As of June 30, 2012, the Company is authorized to repurchase, from time to time, up to 3.6 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. The number and the cost of common stock shares repurchased during the six months ended June 30, 2012 and 2011, are reflected in the following table (in thousands):

|                                      | Six Months Ended<br>June 30, |           |
|--------------------------------------|------------------------------|-----------|
|                                      | 2012                         | 2011      |
| Common stock repurchased (in shares) | 2,503                        | 2,958     |
| Common stock repurchased             | \$ 72,361                    | \$ 85,851 |

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

June 30, 2012

**Note H Stockholders Equity (Continued)**

Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. Repurchases of shares are funded with cash generated from operations. The number and the cost of employee stock plan repurchases made during the six months ended June 30, 2012 and 2011, are reflected in the following table (in thousands):

|   | Six Months Ended<br>June 30, |          |
|---|------------------------------|----------|
|   | 2012                         | 2011     |
| Employee stock plan repurchased (in shares) | 980                          | 193      |
| Employee stock plan repurchased             | \$ 29,019                    | \$ 5,694 |

The repurchased shares are held in treasury and are presented as if constructively retired. Treasury stock is accounted for using the cost method. Treasury stock activity for the six months ended June 30, 2012 and 2011, (consisting of stock option exercises and the purchase of shares for the treasury) is presented in the unaudited Condensed Consolidated Statements of Stockholders Equity.

*Cash Dividends.* The Company's Board of Directors may at their discretion declare and pay dividends upon the shares of the Company's stock either out of the Company's retained earnings or capital surplus. The cash dividends declared during the six months ended June 30, 2012 and 2011, are reflected in the following table:

|                                   | Six Months Ended<br>June 30, |       |
|-----------------------------------|------------------------------|-------|
|                                   | 2012                         | 2011  |
| Cash dividends declared per share | \$.30                        | \$.28 |

Repurchases of shares and issuances of cash dividends are applied first to the extent of retained earnings and any remaining amounts are applied to capital surplus. As a result, the Company had no retained earnings as of June 30, 2012 and December 31, 2011.

**Note I Stock Plans**

Under various stock plans, officers, employees and outside directors have received or may receive grants of restricted stock, stock units, stock appreciation rights or options to purchase common stock. Grants have been made at the discretion of the Committees of the Board of Directors. Grants generally vest over four years. Shares offered under the plan are authorized but unissued shares or treasury shares.

Options currently outstanding under the plans have an exercise price equal to the fair market value of the Company's common stock at the date of grant and consist of non-statutory stock options under the Internal Revenue Code, and generally have a term of 10 years.

Recipients of restricted stock do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and for grants made prior to July 28, 2009, receive all dividends with respect to such shares on the dividend payment dates, whether or not the shares have vested as long as any performance condition has been met. Restricted stock grants made on or after July 28, 2009, contain forfeitable rights to dividends. Dividends for these grants are accrued on the dividend payment dates but are not paid until the shares vest, and dividends accrued for shares that ultimately do not vest are forfeited. Recipients of stock





## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

June 30, 2012

## Note I Stock Plans (Continued)

units do not pay any cash consideration for the units, do not have the right to vote, and do not receive dividends with respect to such units. Compensation expense for restricted stock and stock units is generally recognized on a straight-line basis over the vesting period, based on the stock's fair market value on the grant date. For restricted stock grants issued with performance conditions, compensation expense is recognized over each vesting tranche.

## Note J Net Income Per Share

The calculation of net income per share for the three and six months ended June 30, 2012 and 2011 is reflected in the following table (in thousands, except per share amounts):

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2012                           | 2011      | 2012                         | 2011      |
| Basic net income per share:                            |                                |           |                              |           |
| Net income   | \$ 45,329                      | \$ 36,425 | \$ 93,663                    | \$ 63,130 |
| Income allocated to participating securities - basic   | 228                            | 537       | 494                          | 939       |
| Net income available to common stockholders - basic    | \$ 45,101                      | \$ 35,888 | \$ 93,169                    | \$ 62,191 |
| Basic weighted average shares                          |                                |           |                              |           |
| Basic weighted average shares                          | 138,588                        | 141,286   | 138,986                      | 141,966   |
| Basic net income per share                             | \$ .33                         | \$ .25    | \$ .67                       | \$ .44    |
| Diluted net income per share:                          |                                |           |                              |           |
| Net income   | \$ 45,329                      | \$ 36,425 | \$ 93,663                    | \$ 63,130 |
| Income allocated to participating securities - diluted | 228                            | 535       | 492                          | 936       |
| Net income available to common stockholders - diluted  | \$ 45,101                      | \$ 35,890 | \$ 93,171                    | \$ 62,194 |
| Basic weighted average shares                          |                                |           |                              |           |
| Basic weighted average shares                          | 138,588                        | 141,286   | 138,986                      | 141,966   |
| Dilutive effect of potential common shares             | 1,151                          | 1,299     | 1,050                        | 1,391     |
| Diluted weighted average shares                        | 139,739                        | 142,585   | 140,036                      | 143,357   |
| Diluted net income per share                           | \$ .32                         | \$ .25    | \$ .67                       | \$ .43    |

Potential common shares include the dilutive effect of stock options, unvested performance-based restricted stock, restricted stock which contain forfeitable rights to dividends, and stock units. The weighted average diluted common shares outstanding for the three and six months ended June 30, 2012 and 2011, excludes the effect of the following (in thousands):

| Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|--------------------------------|------|------------------------------|------|
| 2012                           | 2011 | 2012                         | 2011 |

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Total number of anti-dilutive potential common shares | 239 | 803 | 233 | 664 |
|---|-----|-----|-----|-----|

Employee stock options will have a dilutive effect under the treasury method only when the respective period's average market value of the Company's common stock exceeds the exercise proceeds. Under the treasury method, exercise proceeds include the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in capital surplus, if the options were exercised and the stock units and performance-based restricted stock had vested.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

June 30, 2012

**Note K Business Segments**

The Company, which aggregates its operating segments based on the nature of services, has three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. The temporary and consultant segment provides specialized staffing in the accounting and finance, administrative and office, information technology, legal, advertising, marketing and web design fields. The permanent placement segment provides full-time personnel in the accounting, finance, administrative and office, and information technology fields. The risk consulting segment provides business and technology risk consulting and internal audit services.

The accounting policies of the segments are set forth in Note A Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Company evaluates performance based on income or loss from operations before net interest income, intangible amortization expense, and income taxes.

The following table provides a reconciliation of revenue and operating income (loss) by reportable segment to consolidated results (in thousands):

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |              |
|---|--------------------------------|------------|------------------------------|--------------|
|   | 2012                           | 2011       | 2012                         | 2011         |
| Net service revenues                        |                                |            |                              |              |
| Temporary and consultant staffing           | \$ 829,008                     | \$ 752,369 | \$ 1,658,665                 | \$ 1,467,051 |
| Permanent placement staffing                | 89,141                         | 80,663     | 172,003                      | 148,267      |
| Risk consulting and internal audit services | 110,234                        | 104,934    | 213,159                      | 203,517      |
|   | \$ 1,028,383                   | \$ 937,966 | \$ 2,043,827                 | \$ 1,818,835 |
| Operating income (loss)                     |                                |            |                              |              |
| Temporary and consultant staffing           | \$ 51,668                      | \$ 46,241  | \$ 120,822                   | \$ 84,311    |
| Permanent placement staffing                | 18,358                         | 13,875     | 31,624                       | 21,742       |
| Risk consulting and internal audit services | 2,013                          | 970        | (342)                        | (564)        |
|   | 72,039                         | 61,086     | 152,104                      | 105,489      |
| Amortization of intangible assets           | 52                             | 40         | 87                           | 79           |
| Interest income, net                        | (285)                          | (238)      | (519)                        | (450)        |
| Income before income taxes                  | \$ 72,272                      | \$ 61,284  | \$ 152,536                   | \$ 105,860   |

**Note L Subsequent Events**

On August 1, 2012, the Company authorized the repurchase, from time to time, of up to 10 million shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. The authorization is in addition to the 3.6 million shares remaining under the existing repurchase program.

**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**June 30, 2012**

**Note L Subsequent Events (Continued)**

On August 1, 2012, the Company announced the following:

|                              |                    |
|------------------------------|--------------------|
| Quarterly dividend per share | \$ .15             |
| Declaration date             | August 1, 2012     |
| Record date                  | August 24, 2012    |
| Payment date                 | September 14, 2012 |

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain information contained in Management's Discussion and Analysis and in other parts of this report may be deemed forward-looking statements regarding events and financial trends that may affect the Company's future operating results or financial positions. These statements may be identified by words such as estimate, forecast, project, plan, intend, believe, expect, anticipate, or variations or negatives thereof, or similar or comparable words or phrases. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. These risks and uncertainties include, but are not limited to, the following: the global financial and economic situation; changes in levels of unemployment and other economic conditions in the United States or foreign countries where the Company does business, or in particular regions or industries; reduction in the supply of candidates for temporary employment or the Company's ability to attract candidates; the entry of new competitors into the marketplace or expansion by existing competitors; the ability of the Company to maintain existing client relationships and attract new clients in the context of changing economic or competitive conditions; the impact of competitive pressures, including any change in the demand for the Company's services, on the Company's ability to maintain its margins; the possibility of the Company incurring liability for its activities, including the activities of its temporary employees, or for events impacting its temporary employees on clients' premises; the possibility that adverse publicity could impact the Company's ability to attract and retain clients and candidates; the success of the Company in attracting, training, and retaining qualified management personnel and other staff employees; the Company's ability to comply with governmental regulations affecting personnel services businesses in particular or employer/employee relationships in general; whether there will be ongoing demand for Sarbanes-Oxley or other regulatory compliance services; the Company's reliance on short-term contracts for a significant percentage of its business; litigation relating to prior or current transactions or activities, including litigation that may be disclosed from time to time in the Company's SEC filings; the ability of the Company to manage its international operations and comply with foreign laws and regulations; the impact of fluctuations in foreign currency exchange rates; the possibility that the additional costs the Company will incur as a result of health care reform legislation may have a material adverse effect on the Company's profit margins or the demand for the Company's services; the possibility that the additional costs the Company will incur as a result of other government legislation or regulations may have a material adverse effect on the Company's profit margins or the demand for the Company's services; the possibility that the Company's computer and communications hardware and software systems could be damaged or their service interrupted; and the possibility that the Company may fail to maintain adequate financial and management controls and as a result suffer errors in its financial reporting. Additionally, with respect to Protiviti, other risks and uncertainties include the fact that future success will depend on its ability to retain employees and attract clients; there can be no assurance that there will be ongoing demand for Sarbanes-Oxley or other regulatory compliance services; failure to produce projected revenues could adversely affect financial results; and there is the possibility of involvement in litigation relating to prior or current transactions or activities. Because long-term contracts are not a significant part of the Company's business, future results cannot be reliably predicted by considering past trends or extrapolating past results.

*Critical Accounting Policies and Estimates*

The Company's most critical accounting policies and estimates are those that involve subjective decisions or assessments and are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Other than updates to estimates used in the Company's goodwill impairment assessment discussed below, there were no material changes to these critical accounting policies during the six months ended June 30, 2012.

*Goodwill Impairment.* The Company assesses the impairment of goodwill annually in the second quarter, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with FASB authoritative guidance. The Company completed its annual goodwill impairment analysis as of June 30, 2012, and determined that no adjustment to the carrying value of goodwill was required.

The Company follows FASB authoritative guidance utilizing a two-step approach for determining goodwill impairment. In the first step the Company determines the fair value of each reporting unit utilizing a present value technique derived from a discounted cash flow methodology. For purposes of this assessment the Company's reporting units are its lines of business. The fair value of the reporting unit is then compared to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. The second step under the FASB guidance is contingent upon the results of the first step. To the extent a reporting unit's carrying value exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second step involves allocating the reporting unit's fair value to its net assets in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date.

The Company's reporting units are *Accountemps*, *Robert Half Finance & Accounting*, *OfficeTeam*, *Robert Half Technology*, *Robert Half Management Resources* and *Protiviti*, which had goodwill balances at June 30, 2012, of \$127.4 million, \$26.6 million, \$0.0 million, \$7.1 million, \$0.0 million and \$29.3 million, respectively, totaling \$190.4 million. There were no changes to the Company's reporting units or to the allocations of goodwill by reporting unit through June 30, 2012.

The goodwill impairment assessment is based upon a discounted cash flow analysis. The estimate of future cash flows is based upon, among other things, a discount rate and certain assumptions about expected future operating performance. The discount rate for all reporting units was determined by management based on estimates of risk free interest rates, beta and market risk premiums. The discount rate used was compared to the rate published in various third party research reports, which indicated that the rate was within a range of reasonableness. The primary assumptions related to future operating performance include revenue growth rates and profitability levels. In addition, the impairment assessment requires that management make certain judgments in allocating shared assets and liabilities to the balance sheets of the reporting units. Solely for purposes of establishing inputs for the fair value calculations described above related to its annual goodwill impairment testing, the Company made the following assumptions. The Company assumed that year-to-date trends would continue for all reporting units through 2012, using unique assumptions for each reporting unit. In addition, the Company applied profitability assumptions consistent with each reporting unit's historical trends at various revenue levels and, for year 2014 and beyond, used a 5% growth factor to calculate the terminal value at the end of ten years for each unit. This rate is comparable to the Company's most recent ten-year annual compound revenue growth rate. In its most recent calculation, the Company used a 10.0% discount rate, which is slightly higher than the 9.5% discount rate used for the Company's test during the second quarter of 2011. This increase in discount rate is attributable primarily to an increase in beta, partially offset by a decrease in the risk free rate.

In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, the Company applied hypothetical decreases to the fair values of each reporting unit. The Company determined that hypothetical decreases in fair value of at least 75% would be required before any reporting unit would have a carrying value in excess of its fair value.

Given the current economic environment and the uncertainties regarding the impact on the Company's business, there can be no assurance that the Company's estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of the Company's goodwill impairment testing will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or profitability growth rates of certain reporting units are not achieved, the Company may be required to recognize goodwill impairment charges in future periods. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

*Recent Accounting Pronouncements*

See Note B – New Accounting Pronouncements to the Company’s Condensed Consolidated Financial Statements included under Part I – Item 1 of this report.

*Results of Operations*

Demand for the Company’s temporary and permanent placement staffing services and risk consulting and internal audit services is largely dependent upon general economic and labor market conditions both domestically and abroad. Because of the inherent difficulty in predicting economic trends and the absence of material long-term contracts in any of our business units, future demand for the Company’s services cannot be forecasted with certainty. We expect total Company results to continue to be impacted by general macroeconomic conditions in 2012.

The Company’s temporary and permanent placement staffing services business has more than 350 offices in 42 states, the District of Columbia and 19 foreign countries, while Protiviti has 59 offices in 23 states and 12 foreign countries.

*Non-GAAP Financial Measures*

To help readers understand the Company’s financial performance, the Company supplements its GAAP financial results with revenue growth rates derived from Non-GAAP revenue amounts. Variations in the Company’s financial results include the impact of changes in foreign currency exchange rates and billing days. The Company provides same billing days and constant currency revenue growth calculations to remove impact of these items. These calculations show the year-over-year revenue growth rates for the Company’s temporary and consultant staffing and permanent placement staffing segments on both a reported basis and also on a same day, constant-currency basis for Global, U.S. and International operations. The Company has provided this data because management believes it better reflects the Company’s actual revenue growth rates and aids in evaluating revenue trends over time. The Company expresses year-over-year revenue changes as calculated percentages using the same number of billing days and constant currency exchange rates.

In order to calculate constant currency revenue growth rates, as-reported amounts are retranslated using foreign currency exchange rates from the prior year’s comparable period. Management calculates a global, weighted-average number of billing days for each reporting period based upon input from all countries and all staffing lines of business. In order to remove the fluctuations caused by comparable periods having different billing days, the Company calculates same billing day revenue growth rates by dividing each comparative period’s reported revenues by the calculated number of billing days for that period, to arrive at a per billing day amount. Same billing day growth rates are then calculated based upon the per billing day amounts. The term same billing days and constant currency means that the impact of different billing days has been removed from the constant currency calculation.

The Non-GAAP financial measures provided herein may not provide information that is directly comparable to that provided by other companies in the Company’s industry, as other companies may calculate such financial results differently. The Company’s Non-GAAP financial measures are not measurements of financial performance under GAAP, and should not be considered as alternatives to actual revenue growth derived from revenue amounts presented in accordance with GAAP. The Company does not consider these Non-GAAP financial measures to be a substitute for, or superior to, the information provided by GAAP financial results. A reconciliation of the same-day, constant-currency revenue growth rates to the reported revenue growth rates is provided herein.

*Three months ended June 30, 2012 and 2011*

*Revenues.* The Company’s revenues were \$1.0 billion for the three months ended June 30, 2012, increasing by 10% compared to \$938 million for the three months ended June 30, 2011. Revenues from foreign operations



represented 26% of total revenues for three months ended June 30, 2012, compared to 31% for the three months ended June 30, 2011. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. The Company's results were strongest domestically across each of the Company's three reportable segments. Growth rates outside the United States were not as strong, owing in large measure to ongoing concerns over the European debt crisis. The Company has limited exposure to the hardest-hit countries in Europe, but results were affected by a more cautious business environment and lower currency exchange rates in Europe and other parts of the world. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$829 million for the three months ended June 30, 2012, increasing by 10.2% compared to revenues of \$752 million for the three months ended June 30, 2011. On a same day, constant-currency basis, temporary and consultant staffing services revenues increased 12.8% for the second quarter of 2012 compared to the second quarter of 2011. In the U.S., as reported revenues in the second quarter of 2012 increased 16.5% compared to the second quarter of 2011. On a same-day basis, U.S. year-over-year revenues grew 16.9%. The Company's temporary and consultant staffing services revenues from international operations decreased 5.2% compared to the second quarter of 2011. On a same day, constant-currency basis, the Company's revenues from international operations increased 2.8% in the second quarter of 2012 compared to the second quarter of 2011.

Permanent placement staffing revenues were \$89 million for the three months ended June 30, 2012, increasing by 10.5% compared to revenues of \$81 million for the three months ended June 30, 2011. On a same day, constant-currency basis, permanent placement revenues increased 14.7% for the second quarter of 2012 compared to the second quarter of 2011. In the U.S., revenues in the second quarter of 2012 increased 22.0% compared to the second quarter of 2011. On a same-day basis, U.S. year-over-year revenues increased 22.4%. Historically, demand for permanent placement services is even more sensitive to economic and labor market conditions than demand for temporary and consulting staffing services and this is expected to continue. The Company's permanent placement staffing services revenues from international operations decreased 1.9% compared to the second quarter of 2011. On a same day, constant-currency basis, the Company's revenues from international operations increased 6.5% in the second quarter of 2012 compared to the second quarter of 2011.

A reconciliation of the Non-GAAP year-over-year revenue growth rates to the As Reported year-over-year revenue growth rates for the three months ended June 30, 2012, is presented in the following table:

|  | Global       | United States | International |
|--|--------------|---------------|---------------|
| <b>Temporary and consultant staffing</b>       |              |               |               |
| As Reported                                    | 10.2%        | 16.5%         | -5.2%         |
| Billing Days Impact                            | 0.4%         | 0.4%          | 0.3%          |
| Currency Impact                                | 2.2%         |               | 7.7%          |
| <b>Same Billing Days and Constant Currency</b> | <b>12.8%</b> | <b>16.9%</b>  | <b>2.8%</b>   |
| <b>Permanent placement staffing</b>            |              |               |               |
| As Reported                                    | 10.5%        | 22.0%         | -1.9%         |
| Billing Days Impact                            | 0.3%         | 0.4%          | 0.4%          |
| Currency Impact                                | 3.9%         |               | 8.0%          |
| <b>Same Billing Days and Constant Currency</b> | <b>14.7%</b> | <b>22.4%</b>  | <b>6.5%</b>   |

Risk consulting and internal audit services revenues were \$110 million for the three months ended June 30, 2012, increasing by 5.0% compared to revenues of \$105 million for the three months ended June 30, 2011. Contributing to the increase were the improved economic conditions in U.S. In the U.S., revenues in the second quarter of 2012 increased 10.0% compared to the second quarter of 2011. The Company's risk consulting and internal audit services revenues from international operations decreased 7.8% compared to the second quarter of 2011.

*Gross Margin.* The Company's gross margin dollars were \$415 million for the three months ended June 30, 2012, increasing by 12% compared to \$372 million for the three months ended June 30, 2011. In the second quarter of 2012, gross margin dollars increased for all three of the Company's reportable segments compared to the second quarter of 2011. Gross margin as a percentage of revenues increased for the Company's temporary and consultant staffing services segment and decreased for the risk consulting and internal audit services division on a year-over-year basis. Contributing factors for each reportable segment are discussed below in further detail.

Gross margin dollars from the Company's temporary and consultant staffing services represent revenues less direct costs of services, which consist of payroll, payroll taxes and insurance costs for temporary employees, and reimbursable expenses. Gross margin dollars for the Company's temporary and consultant staffing services division were \$297 million for the three months ended June 30, 2012, increasing by 13% compared to \$263 million for the three months ended June 30, 2011. As a percentage of revenues, gross margin for temporary and consultant staffing services was 35.8% in the second quarter of 2012, up from 35.0% in the second quarter of 2011. The higher temporary and consultant gross margin percentage is primarily the result of higher pay/bill spreads. Pay/bill spreads represent the differential between wages paid to temporary employees and amounts billed to clients.

Gross margin dollars from permanent placement staffing services represent revenues less reimbursable expenses. Gross margin dollars for the Company's permanent placement staffing division were \$89 million for the three months ended June 30, 2012, increasing by 11% compared to \$81 million for the three months ended June 30, 2011. Because reimbursable expenses for permanent placement staffing services are de minimis, the increase in gross margin dollars is substantially explained by the increase in revenues previously discussed.

Gross margin dollars for risk consulting and internal audit services represent revenues less direct costs of services, which consist primarily of professional staff payroll, payroll taxes, insurance costs and reimbursable expenses. Gross margin dollars for the Company's risk consulting and internal audit division were \$29 million for the three months ended June 30, 2012, increasing by 3% compared to \$28 million for the three months ended June 30, 2011. As a percentage of revenues, gross margin for risk consulting and internal audit services was 26.4% in the second quarter of 2012, down from 26.9% in the second quarter of 2011. The year-over-year margin decrease is primarily due to lower staff utilization levels outside of the United States.

*Selling, General and Administrative Expenses.* The Company's selling, general and administrative expenses were \$343 million for the three months ended June 30, 2012, increasing by 10% compared to \$311 million for the three months ended June 30, 2011. As a percentage of revenues, the Company's selling, general and administrative expenses were 33.4% for the second quarter of 2012, up from 33.2% for the second quarter of 2011. The increase in Q2 2012 selling, general and administrative expenses was primarily due to a \$19 million, or 1.8% of revenues, charge related to a litigation settlement disclosed in the Company's July 5, 2012, Form 8-K. This charge more than offset percentage decreases in administrative compensation and fixed overhead due to higher operating leverage obtained by higher revenues. Contributing factors related to each reportable segment are discussed below in further detail.

Selling, general and administrative expenses for the Company's temporary and consultant staffing services division were \$245 million for the three months ended June 30, 2012, up 13% from \$217 million for the three months ended June 30, 2011. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 29.6% in the second quarter of 2012, up from 28.9% in the second quarter of 2011. For the second quarter of 2012 compared to the second quarter of 2011, the increase in selling, general and administrative expenses as a percentage of revenue is primarily due to the previously mentioned litigation settlement.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$71 million for the three months ended June 30, 2012, increasing by 6% compared to \$67 million for the three months ended June 30, 2011. As a percentage of revenues, selling, general and administrative expenses for

permanent placement staffing services were 79.4% in the second quarter of 2012, down from 82.7% in the second quarter of 2011. For the second quarter of 2012 compared to the second quarter of 2011, improved leverage in general and administrative expenses, as a result of higher revenue, drove the overall decrease as a percentage of revenues.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$27 million for the three months ended June 30, 2012, remaining flat compared to the three months ended June 30, 2011. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 24.6% in the second quarter of 2012, down from 26.0% compared to the second quarter of 2011. For the second quarter of 2012 compared to the second quarter of 2011, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to higher operating leverage obtained by higher revenues.

*Operating Income.* The Company's total operating income was \$72 million, or 7.0% of revenues, for the three months ended June 30, 2012, increasing by 18% from \$61 million, or 6.5% of revenues, for the three months ended June 30, 2011. For the Company's temporary and consultant staffing services division, operating income was \$52 million, or 6.2% of applicable revenues, up from \$46 million, or 6.1% of applicable revenues, in the second quarter of 2011. For the Company's permanent placement staffing division, operating income was \$18 million, or 20.6% of applicable revenues, up from an operating income of \$14 million, or 17.2% of applicable revenues, in the second quarter of 2011. For the Company's risk consulting and internal audit services division, operating income was \$2 million, or 1.8% of applicable revenues, up from an operating income of \$1 million, or 0.9% of applicable revenues, in the second quarter of 2011.

*Provision for income taxes.* The provision for income taxes was 37% and 41% for the three months ended June 30, 2012 and 2011, respectively. The lower provision for the three months ended June 30, 2012, was primarily due to the resolution of certain tax matters.

#### *Six months ended June 30, 2012 and 2011*

*Revenues.* The Company's revenues were \$2.0 billion for the six months ended June 30, 2012, increasing by 12% compared to \$1.8 billion for the six months ended June 30, 2011. Revenues from foreign operations represented 27% and 31% of total revenues for the six months ended June 30, 2012 and 2011, respectively. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing and risk consulting and internal audit services. In the first half of 2012, revenues for all three of the Company's reportable segments were up compared to the first half of 2011. Results were strongest domestically, with growth rates outside the United States impacted by ongoing concerns over the European debt crisis. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$1.6 billion for the six months ended June 30, 2012, increasing by 13.1% compared to revenues of \$1.5 billion for the six months ended June 30, 2011. On a same day, constant-currency basis, temporary and consultant staffing services revenues increased 14.2% for the first half of 2012 compared to the first half of 2011. In the U.S., revenues in the first half of 2012 increased 18.3%, or 17.9% on a same-day basis, compared to the first half of 2011. For the Company's international operations, revenues in the first half of 2012 increased 0.4%, or 5.3% on a same-day, constant currency basis, compared to the first half of 2011.

Permanent placement revenues were \$172 million for the six months ended June 30, 2012, increasing by 16.0% compared to revenues of \$148 million for the six months ended June 30, 2011. On a same day, constant-currency basis, permanent placement revenues increased 18.3% for the first half of 2012 compared to the first half of 2011. In the U.S., revenues in the first half of 2012 increased 25.3%, or 24.9% on a same-day basis, compared to the first half of 2011. Historically, demand for permanent placement services is even more sensitive to economic and labor market conditions than demand for temporary and consulting staffing services and this is expected to continue. For the Company's international operations, revenues in the first half of 2012 increased 6.0%, or 11.1% on a same day, constant-currency basis, compared to the first half of 2011.

A reconciliation of the Non-GAAP year-over-year revenue growth rates to the As Reported year-over-year revenue growth rates for the six months ended June 30, 2012, is presented in the following table:

|  | Global       | United States | International |
|--|--------------|---------------|---------------|
| <b>Temporary and consultant staffing</b>       |              |               |               |
| As Reported                                    | 13.1%        | 18.3%         | 0.4%          |
| Billing Days Impact                            | -0.4%        | -0.4%         | -0.4%         |
| Currency Impact                                | 1.5%         |               | 5.3%          |
| <b>Same Billing Days and Constant Currency</b> | <b>14.2%</b> | <b>17.9%</b>  | <b>5.3%</b>   |
| <b>Permanent placement staffing</b>            |              |               |               |
| As Reported                                    | 16.0%        | 25.3%         | 6.0%          |
| Billing Days Impact                            | -0.3%        | -0.4%         | -0.4%         |
| Currency Impact                                | 2.6%         |               | 5.5%          |
| <b>Same Billing Days and Constant Currency</b> | <b>18.3%</b> | <b>24.9%</b>  | <b>11.1%</b>  |

Risk consulting and internal audit services revenues were \$213 million for the six months ended June 30, 2012, increasing by 4.7% compared to revenues of \$204 million for the six months ended June 30, 2011. Contributing to the increase was higher demand in U.S. In the U.S., revenues in the first half of 2012 increased 9.4% compared to the first half of 2011. For the Company's international operations, revenues in the first half of 2012 decreased 7.5% compared to the first half of 2011.

*Gross Margin.* The Company's gross margin dollars were \$817 million for the six months ended June 30, 2012, up from \$710 million for the six months ended June 30, 2011. For the first half of 2012 compared to the first half of 2011, gross margin dollars increased for the Company's temporary and consultant staffing services and permanent placement staffing segments and remained flat for the risk consulting and internal audit services. Gross margin as a percentage of revenues increased for the Company's temporary and consultant staffing services division and decreased for the risk consulting and internal audit services division on a year-over-year basis. Contributing factors for each reportable segment are discussed below in further detail.

Gross margin dollars from the Company's temporary and consultant staffing services represent revenues less direct costs of services, which consist of payroll, payroll taxes and insurance costs for temporary employees, and reimbursable expenses. Gross margin dollars for the Company's temporary and consultant staffing services division were \$592 million for the six months ended June 30, 2012, increasing by 16% compared to \$509 million for the six months ended June 30, 2011. As a percentage of revenues, gross margin for temporary and consultant staffing services was 35.7% in the first half of 2012, up from 34.7% in the first half of 2011. The year over year gross margin improvement was driven by higher pay/bill spreads. Pay/bill spreads represent the differential between wages paid to temporary employees and amounts billed to clients.

Gross margin dollars from permanent placement staffing services represent revenues less reimbursable expenses. Gross margin dollars for the Company's permanent placement staffing division were \$172 million for the six months ended June 30, 2012, increasing by 16% compared to \$148 million for the six months ended June 30, 2011. Because reimbursable expenses for permanent placement staffing services are de minimis, the increase in gross margin dollars is substantially explained by the increase in revenues previously discussed.

Gross margin dollars for risk consulting and internal audit services represent revenues less direct costs of services, which consist primarily of professional staff payroll, payroll taxes, insurance costs and reimbursable expenses. Gross margin dollars for the Company's risk consulting and internal audit division were \$53 million for the six months ended June 30, 2012, remaining flat compared to \$53 million for the six months ended June 30, 2011. As a percentage of revenues, gross margin for risk consulting and internal audit services was 24.8% in for the first half of 2012, down from 26.1% in the first half of 2011. The year-over-year margin decrease is primarily due to lower staff utilization levels, particularly outside of the United States.

*Selling, General and Administrative Expenses.* The Company's selling, general and administrative expenses were \$665 million for the six months ended June 30, 2012, increasing by 10% compared to \$605 million for the six months ended June 30, 2011. As a percentage of revenues, the Company's selling, general and administrative expenses were 32.6% for the first half of 2012, down from 33.3% for the first half of 2011. Contributing factors for each reportable segment are discussed below in further detail.

Selling, general and administrative expenses for the Company's temporary and consultant staffing services division were \$472 million for the six months ended June 30, 2012, up 11% from \$425 million for the six months ended June 30, 2011. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 28.4% in the first half of 2012, down from 29.0% in the first half of 2011. For the first half of 2012 compared to the first half of 2011, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to the higher operating leverage obtained by higher revenues, partially offset by the previously mentioned litigation settlement.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$140 million for the six months ended June 30, 2012, increasing by 11% compared to \$126 million for the six months ended June 30, 2011. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 81.6% in the first half of 2011, down from 85.3% in the first half of 2011. For the first half of 2012 compared to the first half of 2011, improved leverage in general and administrative expenses, as a result of higher revenue, drove the overall decrease as a percentage of revenues.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$53 million for the six months ended June 30, 2012, decreasing by 1% compared to \$54 million for the six months ended June 30, 2011. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 25.0% in the first half of 2012, down from 26.3% in the first half of 2011. For the first half of 2012 compared to the first half of 2011, decreases as a percentage of revenues fixed overhead drove the overall decrease.

*Operating Income.* The Company's total operating income was \$152 million, or 7.4% of revenues, for the six months ended June 30, 2012, increasing by 44% from \$105 million, or 5.8% of revenues, for the six months ended June 30, 2011. For the Company's temporary and consultant staffing services division, operating income was \$121 million, or 7.3% of applicable revenues, up from \$84 million, or 5.7% of applicable revenues, in the first half of 2011. For the Company's permanent placement staffing division, operating income was \$31 million, or 18.4% of applicable revenues, up from operating income of \$22 million, or 14.7% of applicable revenues, in the first half of 2011. For the Company's risk consulting and internal audit services division, operating loss was \$0.3 million, or negative 0.2% of applicable revenues, improving from an operating loss of \$1 million, or negative 0.3% of applicable revenues, in the first half of 2011.

*Provision for income taxes.* The provision for income taxes was 39% and 40% for the six months ended June 30, 2012 and 2011, respectively. The lower provision for the six months ended June 30, 2012 was primarily due to the resolution of certain tax matters.

#### *Liquidity and Capital Resources*

The change in the Company's liquidity during the six months ended June 30, 2012 and 2011 is primarily the net effect of funds generated by operations and the funds used for capital expenditures, repurchases of common stock and payment of dividends.

Cash and cash equivalents were \$259 million and \$261 million at June 30, 2012 and 2011, respectively. Operating activities provided \$115 million during the six months ended June 30, 2012, which was more than offset by \$29 million and \$105 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$88 million during the six months ended June 30, 2011, which was more than offset by \$31 million and \$117 million of net cash used in investing activities and financing activities, respectively.

**Operating activities** Net cash provided by operating activities for the six months ended June 30, 2012, was composed of net income of \$94 million, adjusted for non-cash items of \$32 million, and offset by changes in working capital of \$11 million. Net cash provided by operating activities for the six months ended June 30, 2011, was composed of net income of \$63 million, adjusted for non-cash items of \$46 million, and offset by changes in working capital of \$21 million.

**Investing activities** Net cash used in investing activities for the six months ended June 30, 2012, was \$29 million. This was composed of capital expenditures of \$24 million, deposits to trusts for employee benefits and retirement plans of \$4 million and payment for acquisitions, net of cash acquired of \$1 million. Net cash used in investing activities for the six months ended June 30, 2011, was \$31 million. This was composed of capital expenditures of \$28 million and deposits to trusts for employee benefits and retirement plans of \$3 million.

**Financing activities** Net cash used in financing activities for the six months ended June 30, 2012, was \$105 million. This included repurchases of \$101 million in common stock and \$42 million in cash dividends to stockholders, offset by proceeds of \$35 million from exercises of stock options and \$3 million in excess tax benefits from stock-based compensation. Net cash used in financing activities for the six months ended June 30, 2011, was \$117 million. This included repurchases of \$92 million in common stock and \$40 million in cash dividends to stockholders, offset by proceeds of \$14 million from exercise of stock options and \$1 million in excess tax benefits from stock-based compensation.

As of June 30, 2012, the Company is authorized to repurchase, from time to time, up to 3.6 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the six months ended June 30, 2012 and 2011, the Company repurchased 2.5 million shares and 3.0 million shares of common stock on the open market for a total cost of \$72 million and \$86 million, respectively. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. During the six months ended June 30, 2012 and 2011, such repurchases totaled 1.0 million shares, at a cost of \$29 million, and 0.2 million shares, at a cost of \$6 million, respectively. Repurchases of shares have been funded with cash generated from operations.

The Company's working capital at June 30, 2012, included \$259 million in cash and cash equivalents. The Company expects that internally generated cash will be sufficient to support the working capital needs of the Company, the Company's fixed payments, dividends, and other obligations on both a short- and long-term basis.

On August 1, 2012, the Company announced a quarterly dividend of \$.15 per share to be paid to all shareholders of record as of August 24, 2012. The dividend will be paid on September 14, 2012.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to the impact of foreign currency fluctuations. The Company's exposure to foreign currency exchange rates relates primarily to the Company's foreign subsidiaries. Exchange rates impact the U.S. dollar value of the Company's reported earnings, investments in its foreign subsidiaries, and the intercompany transactions with its foreign subsidiaries.

For the six months ended June 30, 2012, approximately 27% of the Company's revenues were generated outside of the U.S. These operations transact business in their functional currency. As a result, fluctuations in the value of foreign currencies against the U.S. dollar, particularly the Canadian dollar, British pound, and Euro, have an impact on the Company's reported results. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Consequently, as the value of the U.S. dollar changes relative to the currencies of the Company's non-U.S. markets, the Company's reported results vary.

Fluctuations in currency exchange rates impact the U.S. dollar amount of the Company's stockholders' equity. The assets and liabilities of the Company's non-U.S. subsidiaries are translated into U.S. dollars at the exchange rates in effect at period end. The resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive income.

**ITEM 4. Controls and Procedures**

Management, including the Company's Chairman and Chief Executive Officer and the Vice Chairman and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chairman and Chief Executive Officer and the Vice Chairman and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal controls over financial reporting identified in connection with the evaluation required by Rule 13a-15 of the Securities Exchange Act of 1934 that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. Legal Proceedings

The Company's prior filings contained disclosures regarding three lawsuits against the Company filed in the California Superior Court: one by Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers; one by Plaintiff Isabel Apolinario, on behalf of herself and a putative class of salaried Account Executives and Staffing Managers; and one by Plaintiff Van Williamson, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers. As previously reported by the Company, the Company believes it has meritorious defenses to the allegations and has vigorously defended against each litigation. As disclosed in the Company's current report on Form 8-K dated April 24, 2012, and its quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2012, these cases were set for voluntary mediation on June 18, 2012. On July 5, 2012, the parties to these lawsuits entered into a Memorandum of Agreement which is expected to settle and resolve all claims. The settlement resulted in a net after-tax charge to second quarter 2012 Net Income of approximately \$11.4 million. The actual settlement of the cases is contingent upon the execution of a formal written settlement agreement approved by the courts. Based on the settlement terms contained in the Memorandum of Agreement, the Company has determined that these cases are not currently material pending legal proceedings. Accordingly, the Company does not presently intend to make disclosures regarding these cases in its future Securities and Exchange Commission filings.

There have been no material developments with regard to the other legal proceedings previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2011 and its quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2012.

### ITEM 1A. Risk Factors

There have not been any material changes with regard to the risk factors previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2011.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### *Issuer Purchases of Equity Securities*

|                                      | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under<br>Publicly<br>Announced<br>Plans (d) |
|--------------------------------------|---|------------------------------------|---|---|
| April 1, 2012 to April 30, 2012      | 100,495(a)                                | \$ 29.78                           | 100,000   | 4,968,153   |
| May 1, 2012 to May 31, 2012          | 1,120,589(b)                              | \$ 29.36                           | 1,080,649   | 3,887,504   |
| June 1, 2012 to June 30, 2012        | 336,801(c)                                | \$ 27.00                           | 305,600   | 3,581,904   |
| Total April 1, 2012 to June 30, 2012 | 1,557,885                                 |                                    | 1,486,249   |   |

(a) Includes 495 shares repurchased in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of applicable withholding taxes and/or exercise price.

(b) Includes 39,940 shares repurchased in connection with employee stock plans, whereby Company shares were tendered by employees for payment of applicable withholding taxes and/or exercise price.

(c) Includes 31,201 shares repurchased in connection with employee stock plans, whereby Company shares were tendered by employees for payment of applicable withholding taxes and/or exercise price.

(d) Commencing in October 1997, the Company's Board of Directors has, at various times, authorized the repurchase, from time to time, of the Company's common stock on the open market or in privately





negotiated transactions depending on market conditions. As of September 30, 2010, a total of 88,000,000 shares had been authorized for repurchase since plan inception, of which, 84,418,096 shares had been repurchased. On August 1, 2012, the Company's Board of Directors authorized the repurchase, from time to time, of up to 10,000,000 additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions, bringing the total authorization since plan inception to 98,000,000 shares and the remaining authorization to 13,581,904 shares.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosure**

Not applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

- 3.1 Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009.
- 3.2 By-Laws, incorporated by reference to Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
- 10.1 Amendment to Restricted Share Agreement dated as of May 9, 2012, between Registrant and Harold M. Messmer, Jr.
- 10.2 Form of Amendment to Restricted Share Agreement.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.
- 101.1 Part I, Item 1 of this Form 10-Q formatted in XBRL.

**SIGNATURES**

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

ROBERT HALF INTERNATIONAL INC.

(Registrant)

/s/ M. KEITH WADDELL  
**M. Keith Waddell**

*Vice Chairman, President and Chief Financial Officer*

*(Principal Financial Officer and*

*duly authorized signatory)*

Date: August 3, 2012