HALF ROBERT INTERNATIONAL INC /DE/
Form 10-Q
November 08, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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)

Delaware	**94-1648752**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2884 Sand Hill Road Suite 200	
Menlo Park, California	**94025**
(Address of principal executive offices)	**(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 x 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 x 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	x	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 x

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

140,738,839 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)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 289,428	$ 279,336
Accounts receivable, less allowances of $26,226 and $22,627	556,590	493,327
Current deferred income taxes	106,971	88,578
Other current assets	151,835	145,437
Total current assets	1,104,824	1,006,678
Goodwill	190,924	189,423
Other intangible assets, net	466	50
Property and equipment, net	105,184	107,972
Other assets	5,309	7,713
Total assets	$ 1,406,707	$ 1,311,836
LIABILITIES		
Accounts payable and accrued expenses	$ 141,909	$ 117,596
Accrued payroll costs and retirement obligations	366,297	355,294
Income taxes payable	24,319	
Current portion of notes payable and other indebtedness	117	111
Total current liabilities	532,642	473,001
Notes payable and other indebtedness, less current portion	1,458	1,545
Other liabilities	36,735	36,785
Total liabilities	570,835	511,331
Commitments and Contingencies (Note G)		
STOCKHOLDERS EQUITY		
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 140,810,908 shares and 142,085,533 shares	141	142
Capital surplus	784,327	759,476
Accumulated other comprehensive income	42,719	40,887
Retained earnings	8,685	
Total stockholders equity	835,872	800,505
Total liabilities and stockholders equity	$ 1,406,707	$ 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net service revenues	$ 1,033,173	$ 984,668	$ 3,077,000	$ 2,803,503
Direct costs of services, consisting of payroll, payroll taxes, insurance costs and reimbursable expenses	617,924	592,765	1,844,365	1,701,223
Gross margin	415,249	391,903	1,232,635	1,102,280
Selling, general and administrative expenses	321,030	319,817	986,312	924,705
Amortization of intangible assets	100	39	187	118
Interest income, net	(348)	(148)	(867)	(598)
Income before income taxes	94,467	72,195	247,003	178,055
Provision for income taxes	36,807	28,027	95,680	70,757
Net income	$ 57,660	$ 44,168	$ 151,323	$ 107,298
Net income available to common stockholders diluted	$ 57,383	$ 43,556	$ 150,551	$ 105,740
Net income per share (Note J):				
Basic	$ .42	$ .31	$ 1.09	$ .75
Diluted	$ .41	$ .31	$ 1.08	$ .74
Shares:				
Basic	137,918	139,449	138,627	141,118
Diluted	139,141	140,433	139,735	142,373
Cash dividends declared per share	$ .15	$ .14	$ .45	$ .42

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
COMPREHENSIVE INCOME:				
Net income	$ 57,660	$ 44,168	$ 151,323	$ 107,298
Foreign currency translation adjustments, net of tax	4,212	(14,611)	1,832	(3,597)
Total comprehensive income	$ 61,872	$ 29,557	$ 153,155	$ 103,701

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)

	Nine Months Ended September 30,	
	2012	**2011**
COMMON STOCK SHARES:		
Balance at beginning of period	142,086	146,183
Net issuances of restricted stock	1,264	1,252
Repurchases of common stock	(4,521)	(5,238)
Exercises of stock options	1,982	661
Balance at end of period	140,811	142,858
COMMON STOCK PAR VALUE:		
Balance at beginning of period	$ 142	$ 146
Net issuances of restricted stock	1	1
Repurchases of common stock	(4)	(5)
Exercise of stock options	2	1
Balance at end of period	$ 141	$ 143
CAPITAL SURPLUS:		
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	(7,715)	(33,088)
Cash dividends ($.45 per share and $.42 per share)	(42,614)	(61,016)
Stock-based compensation expense	30,891	38,193
Exercises of stock options excess over par value	37,840	15,277
Tax impact of equity incentive plans	6,450	1,814
Balance at end of period	$ 784,327	$ 748,284
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Balance at beginning of period	$ 40,887	$ 47,120
Foreign currency translation adjustments, net of tax	1,832	(3,597)
Balance at end of period	$ 42,719	$ 43,523
RETAINED EARNINGS:		
Balance at beginning of period	$	$
Net income	151,323	107,298
Repurchases of common stock excess over par value	(121,388)	(107,298)
Cash dividends (.45 per share)	(21,250)	
Balance at end of period	$ 8,685	$

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

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ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 151,323	$ 107,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	187	118
Depreciation expense	36,323	38,509
Stock-based compensation expense restricted stock and stock units	30,891	38,193
Excess tax benefits from stock-based compensation	(3,104)	(1,087)
Provision for deferred income taxes	(19,544)	(7,186)
Provision for doubtful accounts receivable	7,657	3,940
Changes in assets and liabilities:		
Increase in accounts receivable	(68,578)	(99,490)
Increase in accounts payable, accrued expenses, accrued payroll costs and retirement obligations	19,201	56,280
Increase in income taxes payable	37,019	30,701
Change in other assets, net of change in other liabilities	(121)	(7,608)
Net cash flows provided by operating activities	191,254	159,668
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired	(1,525)	
Capital expenditures	(35,816)	(41,708)
Increase in trusts for employee benefits and retirement plans	(5,752)	(4,812)
Net cash flows used in investing activities	(43,093)	(46,520)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases of common stock	(117,468)	(140,391)
Cash dividends paid	(62,691)	(60,024)
Increase in notes payable and other indebtedness	(76)	(92)
Excess tax benefits from stock-based compensation	3,104	1,087
Proceeds from exercises of stock options	37,843	15,279
Net cash flows used in financing activities	(139,288)	(184,141)
Effect of exchange rate changes on cash and cash equivalents	1,219	(1,418)
Net increase (decrease) in cash and cash equivalents	10,092	(72,411)
Cash and cash equivalents at beginning of period	279,336	315,137
Cash and cash equivalents at end of period	$ 289,428	$ 242,726
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 308	$ 409
Income taxes, net of refunds	$ 80,158	$ 44,857
Non-cash items:		
Stock repurchases awaiting settlement	$ 11,639	$

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)

September 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®*, *Robert Half® Finance & Accounting, OfficeTeam®*, *Robert Half® Technology, Robert Half® Management Resources, Robert Half® Legal, The Creative Group®*, and *Protiviti®*. 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 September 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 nine months ended September 30, 2012 and 2011, are reflected in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Advertising costs	$ 10,522	$ 11,283	$ 31,748	$ 31,033

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 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 nine months ended September 30, 2012 and 2011 are reflected in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Internal-use software development costs	$ 4,377	$ 5,717	$ 14,058	$ 13,710

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 related to 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 requires an entity 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.

Note C Other Current Assets

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

	September 30, 2012	December 31, 2011
Deposits in trusts for employee benefits and retirement plans	$ 95,266	$ 87,646
Other	56,569	57,791
	$ 151,835	$ 145,437

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2012

Note D Goodwill

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

	Goodwill
Balance as of December 31, 2011	$ 189,423
Acquisitions	988
Foreign currency translation adjustments	513
Balance as of September 30, 2012	$ 190,924

Note E Property and Equipment, Net

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

	September 30, 2012	December 31, 2011
Computer hardware	$ 130,469	$ 122,619
Computer software	264,552	249,843
Furniture and equipment	113,912	108,917
Leasehold improvements	119,206	113,972
Other	13,228	15,143
Property and equipment, cost	641,367	610,494
Accumulated depreciation	(536,183)	(502,522)
Property and equipment, net	$ 105,184	$ 107,972

Note F Accrued Payroll Costs and Retirement Obligations

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

	September 30, 2012	December 31, 2011
Payroll and benefits	$ 219,345	$ 181,035
Employee retirement obligations	89,325	87,031
Workers compensation	29,735	24,217
Payroll taxes	27,892	63,011
	$ 366,297	$ 355,294

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

	September 30, 2012	December 31, 2011
Deferred compensation plan and other benefits related to the Company s Chief Executive Officer	$ 73,155	$ 71,603

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2012

Note G Commitments and Contingencies

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 September 30, 2012, the Company is authorized to repurchase, from time to time, up to 12.6 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 nine months ended September 30, 2012 and 2011, are reflected in the following table (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Common stock repurchased (in shares)	3,502	5,021
Common stock repurchased	$ 98,990	$ 134,026

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 nine months ended September 30, 2012 and 2011, are reflected in the following table (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Employee stock plan repurchased (in shares)	1,019	216
Employee stock plan repurchased	$ 30,117	$ 6,365

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 nine months ended September 30, 2012 and

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2012

Note H Stockholders Equity (Continued)

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 nine months ended September 30, 2012 and 2011, are reflected in the following table:

	Nine Months Ended September 30,	
	2012	2011
Cash dividends declared per share	$ .45	$ .42

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 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 plans 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 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.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2012

Note J Net Income Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic net income per share:				
Net income	$ 57,660	$ 44,168	$ 151,323	$ 107,298
Income allocated to participating securities basic	278	615	776	1,564
Net income available to common stockholders basic	$ 57,382	$ 43,553	$ 150,547	$ 105,734
Basic weighted average shares	137,918	139,449	138,627	141,118
Basic net income per share	$ .42	$ .31	$ 1.09	$ .75
Diluted net income per share:				
Net income	$ 57,660	$ 44,168	$ 151,323	$ 107,298
Income allocated to participating securities diluted	277	612	772	1,558
Net income available to common stockholders diluted	$ 57,383	$ 43,556	$ 150,551	$ 105,740
Basic weighted average shares	137,918	139,449	138,627	141,118
Dilutive effect of potential common shares	1,223	984	1,108	1,255
Diluted weighted average shares	139,141	140,433	139,735	142,373
Diluted net income per share	$ .41	$ .31	$ 1.08	$ .74

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 nine months ended September 30, 2012 and 2011, excludes the effect of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total number of anti-dilutive potential common shares	406	2,996	231	764

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.

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,

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2012

Note K Business Segments (Continued)

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 by reportable segment to consolidated results (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net service revenues				
Temporary and consultant staffing	$ 831,922	$ 794,722	$ 2,490,587	$ 2,261,773
Permanent placement staffing	81,757	79,064	253,760	227,331
Risk consulting and internal audit services	119,494	110,882	332,653	314,399
	$ 1,033,173	$ 984,668	$ 3,077,000	$ 2,803,503
Operating income				
Temporary and consultant staffing	$ 75,832	$ 61,196	$ 196,654	$ 145,507
Permanent placement staffing	12,538	7,719	44,162	29,461
Risk consulting and internal audit services	5,849	3,171	5,507	2,607
	94,219	72,086	246,323	177,575
Amortization of intangible assets	100	39	187	118
Interest income, net	(348)	(148)	(867)	(598)
Income before income taxes	$ 94,467	$ 72,195	$ 247,003	$ 178,055

Note L Subsequent Events

On November 8, 2012, the Company announced the following:

Quarterly dividend per share	$.15
Declaration date	November 8, 2012
Record date	November 26, 2012
Payment date	December 14, 2012

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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 the 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 nine months ended September 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. There were no events or changes in circumstances during the nine months ended September 30, 2012 that caused the Company to perform an interim impairment assessment.

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 September 30, 2012, of $127.5 million, $26.6 million, $0.0 million, $7.2 million, $0.0 million and $29.6 million, respectively, totaling $190.9 million. There were no changes to the Company s reporting units or to the allocations of goodwill by reporting unit during the nine months ended September 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 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 the 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 September 30, 2012 and 2011

Revenues. The Company s revenues were $1.03 billion for the three months ended September 30, 2012, increasing by 5% compared to $985 million for the three months ended September 30, 2011. Revenues from foreign operations represented 26% of total revenues for three months ended September 30, 2012, compared to 30% for the three months ended September 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 $832 million for the three months ended September 30, 2012, increasing by 4.7% compared to revenues of $795 million for the three months ended September 30, 2011. On a same-day, constant-currency basis, temporary and consultant staffing services revenues increased 7.9% for the third quarter of 2012 compared to the third quarter of 2011. In the U.S., as reported revenues in the third quarter of 2012 increased 10.0% compared to the third quarter of 2011. On a same-day basis, U.S. year-over-year revenues grew 11.4%. The Company s temporary and consultant staffing services revenues from international operations decreased 8.7% compared to the third quarter of 2011. On a same-day, constant-currency basis, the Company s revenues from international operations decreased 0.8% in the third quarter of 2012 compared to the third quarter of 2011.

Permanent placement staffing revenues were $82 million for the three months ended September 30, 2012, increasing by 3.4% compared to revenues of $79 million for the three months ended September 30, 2011. On a same-day, constant-currency basis, permanent placement revenues increased 8.0% for the third quarter of 2012 compared to the third quarter of 2011. In the U.S., revenues in the third quarter of 2012 increased 15.2% compared to the third quarter of 2011. On a same-day basis, U.S. year-over-year revenues increased 16.7%. The Company s permanent placement staffing services revenues from international operations decreased 10.2% compared to the third quarter of 2011. On a same-day, constant-currency basis, the Company s revenues from international operations decreased 1.9% in the third quarter of 2012 compared to the third quarter 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.

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 September 30, 2012, is presented in the following table:

	Global	United States	International
Temporary and consultant staffing			
As Reported	4.7%	10.0%	-8.7%
Billing Days Impact	1.3%	1.4%	1.2%
Currency Impact	1.9%		6.7%
Same Billing Days and Constant Currency	7.9%	11.4%	-0.8%
Permanent placement staffing			
As Reported	3.4%	15.2%	-10.2%
Billing Days Impact	1.3%	1.5%	1.3%
Currency Impact	3.3%		7.0%
Same Billing Days and Constant Currency	8.0%	16.7%	-1.9%

Risk consulting and internal audit services revenues were $119 million for the three months ended September 30, 2012, increasing by 7.8% compared to revenues of $111 million for the three months ended

September 30, 2011. Contributing to the increase were the improved economic conditions in U.S. In the U.S., revenues in the third quarter of 2012 increased 10.2% compared to the third quarter of 2011. The Company s risk consulting and internal audit services revenues from international operations remained flat compared to the third quarter of 2011.

Gross Margin. The Company s gross margin dollars were $415 million for the three months ended September 30, 2012, increasing by 6% compared to $392 million for the three months ended September 30, 2011. In the third quarter of 2012, gross margin dollars increased for all three of the Company s reportable segments compared to the third 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 $301 million for the three months ended September 30, 2012, increasing by 7% compared to $282 million for the three months ended September 30, 2011. As a percentage of revenues, gross margin for temporary and consultant staffing services was 36.2% in the third quarter of 2012, up from 35.5% in the third quarter of 2011. The higher temporary and consultant gross margin percentage is due primarily to lower fringe benefit costs globally and higher pay/bill spreads in the United States. 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 $82 million for the three months ended September 30, 2012, increasing by 3% compared to $79 million for the three months ended September 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 $32 million for the three months ended September 30, 2012, increasing by 5% compared to $31 million for the three months ended September 30, 2011. As a percentage of revenues, gross margin for risk consulting and internal audit services was 26.9% in the third quarter of 2012, down from 27.5% in the third quarter of 2011. The year-over-year margin decrease expressed as a percentage of revenues is primarily due to an increase in direct costs, which was partially offset by an increase in staff utilization levels.

Selling, General and Administrative Expenses. The Company s selling, general and administrative expenses were $321 million for the three months ended September 30, 2012, increasing slightly compared to $320 million for the three months ended September 30, 2011. As a percentage of revenues, the Company s selling, general and administrative expenses were 31.1% for the third quarter of 2012, down from 32.5% for the third quarter of 2011. 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 $226 million for the three months ended September 30, 2012, up 2% from $221 million for the three months ended September 30, 2011. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 27.1% in the third quarter of 2012, down from 27.8% in the third quarter of 2011. For the third quarter of 2012 compared to the third 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 permanent placement staffing division were $69 million for the three months ended September 30, 2012, decreasing by 3% compared to $72 million for the three months ended September 30, 2011. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 84.6% in the third quarter of 2012, down from 90.2% in the third quarter of 2011. For the third quarter of 2012 compared to the third quarter of 2011, improved leverage in general and administrative expenses domestically, combined with reduced selling, general and administrative expenses in select international countries, 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 $26 million for the three months ended September 30, 2012, decreasing by 4% compared to $27 million for the three months ended September 30, 2011. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 22.0% in the third quarter of 2012, down from 24.6% in the third quarter of 2011. For the third quarter of 2012 compared to the third 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 $94 million, or 9.1% of revenues, for the three months ended September 30, 2012, increasing by 31% from $72 million, or 7.3% of revenues, for the three months ended September 30, 2011. For the Company s temporary and consultant staffing services division, operating income was $76 million, or 9.1% of applicable revenues, up from $61 million, or 7.7% of applicable revenues, in the third quarter of 2011. For the Company s permanent placement staffing division, operating income was $12 million, or 15.3% of applicable revenues, up from an operating income of $8 million, or 9.8% of applicable revenues, in the third quarter of 2011. For the Company s risk consulting and internal audit services division, operating income was $6 million, or 4.9% of applicable revenues, up from an operating income of $3 million, or 2.9% of applicable revenues, in the third quarter of 2011.

Provision for income taxes. The provision for income taxes was 39% for both the three months ended September 30, 2012 and 2011.

Nine months ended September 30, 2012 and 2011

Revenues. The Company s revenues were $3.08 billion for the nine months ended September 30, 2012, increasing by 10% compared to $2.8 billion for the nine months ended September 30, 2011. Revenues from foreign operations represented 27% and 30% of total revenues for the nine months ended September 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 three quarters of 2012, revenues for all three of the Company s reportable segments were up compared to the first three quarters 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 $2.49 billion for the nine months ended September 30, 2012, increasing by 10.1% compared to revenues of $2.3 billion for the nine months ended September 30, 2011. On a same-day, constant-currency basis, temporary and consultant staffing services revenues increased 12.0% for the first three quarters of 2012 compared to the first three quarters of 2011. In the U.S., revenues in the first three quarters of 2012 increased 15.4%, or 15.6% on a same-day basis, compared to the first three quarters of 2011. For the Company s international operations, revenues in the first three quarters of 2012 decreased 2.8% and on a same-day, constant-currency basis increased 3.2%, compared to the first three quarters of 2011.

Permanent placement revenues were $254 million for the nine months ended September 30, 2012, increasing by 11.6% compared to revenues of $227 million for the nine months ended September 30, 2011. On a

same-day, constant- currency basis, permanent placement revenues increased 14.7% for the first three quarters of 2012 compared to the first three quarters of 2011. In the U.S., revenues in the first three quarters of 2012 increased 21.7%, or 22.0% on a same-day basis, compared to the first three quarters of 2011. For the Company s international operations, revenues in the first three quarters of 2012 increased 0.5%, or 6.7% on a same-day, constant-currency basis, compared to the first three quarters 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.

A reconciliation of the non-GAAP year-over-year revenue growth rates to the as reported year-over-year revenue growth rates for the nine months ended September 30, 2012, is presented in the following table:

	Global	United States	International
Temporary and consultant staffing			
As Reported	10.1%	15.4%	-2.8%
Billing Days Impact	0.2%	0.2%	0.2%
Currency Impact	1.7%		5.8%
Same Billing Days and Constant Currency	12.0%	15.6%	3.2%
Permanent placement staffing			
As Reported	11.6%	21.7%	0.5%
Billing Days Impact	0.2%	0.3%	0.2%
Currency Impact	2.9%		6.0%
Same Billing Days and Constant Currency	14.7%	22.0%	6.7%

Risk consulting and internal audit services revenues were $333 million for the nine months ended September 30, 2012, increasing by 5.8% compared to revenues of $314 million for the nine months ended September 30, 2011. Contributing to the increase was higher demand in the U.S. In the U.S., revenues in the first three quarters of 2012 increased 9.7% compared to the first three quarters of 2011. For the Company s international operations, revenues in the first three quarters of 2012 decreased 5.1% compared to the first three quarters of 2011.

Gross Margin. The Company s gross margin dollars were $1.2 billion for the nine months ended September 30, 2012, up from $1.1 billion for the nine months ended September 30, 2011. For the first three quarters of 2012 compared to the first three quarters of 2011, gross margin dollars increased for all three of the Company s reportable segments. 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 $894 million for the nine months ended September 30, 2012, increasing by 13% compared to $792 million for the nine months ended September 30, 2011. As a percentage of revenues, gross margin for temporary and consultant staffing services was 35.9% in the first three quarters of 2012, up from 35.0% in the first three quarters of 2011. The year over year gross margin improvement was driven by higher pay/bill spreads in the United States. 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 $254 million for

the nine months ended September 30, 2012, increasing by 12% compared to $227 million for the nine months ended September 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 $85 million for the nine months ended September 30, 2012, increasing by 2% compared to $83 million for the nine months ended September 30, 2011. As a percentage of revenues, gross margin for risk consulting and internal audit services was 25.5% for the first three quarters of 2012, down from 26.6% in the first three quarters of 2011. The year-over-year margin decrease expressed as a percentage of revenues is primarily due to an increase in direct costs.

Selling, General and Administrative Expenses. The Company s selling, general and administrative expenses were $986 million for the nine months ended September 30, 2012, increasing by 7% compared to $925 million for the nine months ended September 30, 2011. As a percentage of revenues, the Company s selling, general and administrative expenses were 32.1% for the first three quarters of 2012, down from 33.0% for the first three quarters 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 $697 million for the nine months ended September 30, 2012, up 8% from $646 million for the nine months ended September 30, 2011. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 28.0% in the first three quarters of 2012, down from 28.6% in the first three quarters of 2011. For the first three quarters of 2012 compared to the first three quarters 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 a $19 million, or 0.8% of revenues, charge related to a litigation settlement disclosed in the Company s July 5, 2012, Form 8-K.

Selling, general and administrative expenses for the Company s permanent placement staffing division were $210 million for the nine months ended September 30, 2012, increasing by 6% compared to $198 million for the nine months ended September 30, 2011. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 82.6% in the first three quarters of 2011, down from 87.0% in the first three quarters of 2011. For the first three quarters of 2012 compared to the first three quarters 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 $79 million for the nine months ended September 30, 2012, decreasing by 2% compared to $81 million for the nine months ended September 30, 2011. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 23.9% in the first three quarters of 2012, down from 25.7% in the first three quarters of 2011. For the first three quarters of 2012 compared to the first three quarters of 2011, improved leverage in general and administrative expenses, as a result of higher revenue, drove the overall decrease as a percentage of revenues.

Operating Income. The Company s total operating income was $246 million, or 8.0% of revenues, for the nine months ended September 30, 2012, increasing by 39% from $178 million, or 6.3% of revenues, for the nine months ended September 30, 2011. For the Company s temporary and consultant staffing services division, operating income was $197 million, or 7.9% of applicable revenues, up from $146 million, or 6.4% of applicable revenues, in the first three quarters of 2011. For the Company s permanent placement staffing division, operating income was $44 million, or 17.4% of applicable revenues, up from operating income of $29 million, or 13.0% of

applicable revenues, in the first three quarters of 2011. For the Company s risk consulting and internal audit services division, operating income was $5 million, or 1.7% of applicable revenues, up from operating income of $3 million, or 0.8% of applicable revenues, in the first three quarters of 2011.

Provision for income taxes. The provision for income taxes was 39% and 40% for the nine months ended September 30, 2012 and 2011, respectively. The lower provision for the nine months ended September 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 nine months ended September 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 $289 million and $243 million at September 30, 2012 and 2011, respectively. Operating activities provided $191 million during the nine months ended September 30, 2012, which was partially offset by $43 million and $139 million of net cash used in investing activities and financing activities, respectively. Operating activities provided $160 million during the nine months ended September 30, 2011, which was more than offset by $47 million and $184 million of net cash used in investing activities and financing activities, respectively.

Operating activities Net cash provided by operating activities for the nine months ended September 30, 2012, was composed of net income of $151 million, adjusted for non-cash items of $52 million, and offset by changes in working capital of $12 million. Net cash provided by operating activities for the nine months ended September 30, 2011, was composed of net income of $107 million, adjusted for non-cash items of $73 million, and offset by changes in working capital of $20 million.

Investing activities Net cash used in investing activities for the nine months ended September 30, 2012, was $43 million. This was composed of capital expenditures of $36 million, deposits to trusts for employee benefits and retirement plans of $6 million and payments for acquisitions, net of cash acquired of $1 million. Net cash used in investing activities for the nine months ended September 30, 2011, was $47 million. This was composed of capital expenditures of $42 million and deposits to trusts for employee benefits and retirement plans of $5 million.

Financing activities Net cash used in financing activities for the nine months ended September 30, 2012, was $139 million. This included repurchases of $117 million in common stock and $63 million in cash dividends to stockholders, offset by proceeds of $38 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 nine months ended September 30, 2011, was $184 million. This included repurchases of $140 million in common stock and $60 million in cash dividends to stockholders, offset by proceeds of $15 million from exercises of stock options and $1 million in excess tax benefits from stock-based compensation.

As of September 30, 2012, the Company is authorized to repurchase, from time to time, up to 12.6 million additional shares of the Company s common stock on the open market or in privately negotiated transactions, depending on market conditions. During the nine months ended September 30, 2012 and 2011, the Company repurchased 3.5 million shares and 5.0 million shares of common stock on the open market for a total cost of $99 million and $134 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 nine months ended September 30, 2012 and 2011, such repurchases totaled 1.0 million shares, at a cost of $30 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 September 30, 2012, included $289 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 November 8, 2012, the Company announced a quarterly dividend of $.15 per share to be paid to all shareholders of record as of November 26, 2012. The dividend will be paid on December 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 nine months ended September 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 materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

There have been no material developments with regard to the 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 reports on Form 10-Q for the fiscal quarter ended March 31, 2012 and June 30, 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 Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under Publicly Announced Plans (d)
July 1, 2012 to July 31, 2012	3,869(a)	$ 28.57		13,581,904
August 1, 2012 to August 31, 2012	496,823(b)	$ 26.92	462,000	13,119,904
September 1, 2012 to September 30, 2012	536,868(c)	$ 26.52	536,632	12,583,272
Total July 1, 2012 to September 30, 2012	1,037,560		998,632	

(a) Represents 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 34,823 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.

(c) Includes 236 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.

(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 transaction depending on market conditions. Since plan inception, a total of 98,000,000 shares have been authorized for repurchase of which 85,416,728 shares have been repurchases as of September 30, 2012.

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.
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: November 8, 2012