

HALF ROBERT INTERNATIONAL INC /DE/  
Form 10-Q  
August 02, 2010

**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, 2010**

**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 June 30, 2010:

147,590,437 shares of \$.001 par value Common Stock

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**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, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 290,044	\$ 365,794
Accounts receivable, less allowances of \$19,405 and \$21,423	384,642	362,392
Current deferred income taxes	94,158	51,643
Other current assets	128,779	142,805
<b>Total current assets</b>	<b>897,623</b>	<b>922,634</b>
Goodwill	188,613	189,336
Other intangible assets, net	77	392
Property and equipment, net	108,318	124,658
Deferred and other income taxes	19,639	46,515
<b>Total assets</b>	<b>\$ 1,214,270</b>	<b>\$ 1,283,535</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 96,629	\$ 101,610
Accrued payroll costs and retirement obligations	259,315	265,245
Income taxes payable	1,597	
Current portion of notes payable and other indebtedness	118	113
<b>Total current liabilities</b>	<b>357,659</b>	<b>366,968</b>
Notes payable and other indebtedness, less current portion	1,719	1,779
Other liabilities	26,071	14,978
<b>Total liabilities</b>	<b>385,449</b>	<b>383,725</b>
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 147,575,541 shares and 148,645,335 shares	148	149
Capital surplus	797,769	854,081
Accumulated other comprehensive income	30,904	45,580
Retained earnings		
<b>Total stockholders equity</b>	<b>828,821</b>	<b>899,810</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,214,270</b>	<b>\$ 1,283,535</b>

The accompanying Notes to Condensed Consolidated Financial Statements 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net service revenues	\$ 769,090	\$ 749,887	\$ 1,506,263	\$ 1,573,212
Direct costs of services, consisting of payroll, payroll taxes, insurance costs and reimbursable expenses	479,232	484,830	948,277	1,014,427
Gross margin	289,858	265,057	557,986	558,785
Selling, general and administrative expenses	267,519	255,007	523,187	532,057
Amortization of intangible assets	46	280	315	898
Interest income, net	(94)	(455)	(168)	(1,075)
Income before income taxes	22,387	10,225	34,652	26,905
Provision for income taxes	10,206	4,809	13,996	12,701
Net income	\$ 12,181	\$ 5,416	\$ 20,656	\$ 14,204
Net income available to common stockholders	\$ 11,660	\$ 4,801	\$ 19,286	\$ 13,110
Net income per share (Note J):				
Basic	\$ .08	\$ .03	\$ .13	\$ .09
Diluted	\$ .08	\$ .03	\$ .13	\$ .09
Shares:				
Basic	143,100	146,443	143,667	146,660
Diluted	144,331	147,044	144,999	147,092
Cash dividends declared per share	\$ .13	\$ .12	\$ .26	\$ .24

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## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(in thousands, except per share amounts)

	Six Months Ended June 30,	
	2010	2009
<b>COMMON STOCK SHARES:</b>		
Balance at beginning of period	148,645	150,943
Net issuances of restricted stock	1,410	2,310
Repurchases of common stock	(2,726)	(2,696)
Exercises of stock options	247	1,264
Balance at end of period	147,576	151,821
<b>COMMON STOCK PAR VALUE:</b>		
Balance at beginning of period	\$ 149	\$ 151
Net issuances of restricted stock	1	2
Repurchases of common stock	(2)	(2)
Exercise of stock options		1
Balance at end of period	\$ 148	\$ 152
<b>CAPITAL SURPLUS:</b>		
Balance at beginning of period	\$ 854,081	\$ 949,474
Net issuances, and other changes to, restricted stock excess over par value	(1)	(2)
Repurchases of common stock excess over par value	(55,674)	(43,465)
Cash dividends (\$.26 per share and \$.24 per share)	(34,114)	(36,438)
Stock-based compensation expense	29,124	30,686
Exercises of stock options excess over par value	5,385	17,906
Tax impact of equity incentive plans	(1,032)	1,196
Balance at end of period	\$ 797,769	\$ 919,357
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>		
Balance at beginning of period	\$ 45,580	\$ 34,263
Translation adjustments	(14,676)	7,397
Balance at end of period	\$ 30,904	\$ 41,660
<b>RETAINED EARNINGS:</b>		
Balance at beginning of period	\$	\$
Repurchases of common stock excess over par value	(16,085)	(14,204)
Cash dividends (\$.26 per share)	(4,571)	
Net income	20,656	14,204
Balance at end of period	\$	\$

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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 June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 20,656	\$ 14,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	315	898
Depreciation expense	28,910	32,788
Stock-based compensation expense restricted stock and stock units	28,969	30,128
Stock-based compensation expense stock options	155	558
Excess tax benefits from stock-based compensation	(709)	(1,777)
Provision for deferred income taxes	(7,182)	1,813
Provision for doubtful accounts	2,101	(1,449)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(35,275)	116,824
Decrease in accounts payable, accrued expenses, accrued payroll costs and retirement obligations	(1,555)	(69,400)
Increase (decrease) in income taxes payable	7,899	(5,397)
Change in other assets, net of change in other liabilities	6,700	6,315
Net cash flows provided by operating activities	50,984	125,505
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(14,412)	(24,148)
Decrease (increase) in trusts for employee benefits and retirement plans	609	(1,254)
Net cash flows used in investing activities	(13,803)	(25,402)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(71,761)	(57,671)
Cash dividends paid	(38,634)	(36,287)
Decrease in notes payable and other indebtedness	(55)	(51)
Excess tax benefits from stock-based compensation	709	1,777
Proceeds from exercises of stock options	5,385	17,907
Net cash flows used in financing activities	(104,356)	(74,325)
Effect of exchange rate changes on cash and cash equivalents	(8,575)	5,284
Net (decrease) increase in cash and cash equivalents	(75,750)	31,062
Cash and cash equivalents at beginning of period	365,794	354,756
Cash and cash equivalents at end of period	\$ 290,044	\$ 385,818
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 301	\$ 212
Income taxes, net of refunds	\$ 12,840	\$ 6,685

The accompanying Notes to Condensed Consolidated Financial Statements are



an integral part of these financial statements.

**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

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

**June 30, 2010**

**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, 2009, 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. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

*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, 2010, 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.

*Revenue Recognition.* The Company derives its revenues from three segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. Net service revenues as presented on the unaudited Condensed Consolidated Statements of Operations represent services rendered to customers less sales adjustments and allowances. Reimbursements, including those related to travel and out-of-pocket expenses, are also included in net service revenues, and equivalent amounts of reimbursable expenses are included in direct costs of services. The Company records revenue on a gross basis as a principal versus on a net basis as an agent in the presentation of revenues and expenses. The Company has concluded that gross reporting is appropriate because the Company (i) has the risk of identifying and hiring qualified employees, (ii) has the discretion to select the employees and establish their price and duties and (iii) bears the risk for services that are not fully paid for by customers.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2010

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

**Temporary and consultant staffing revenues** Temporary and consultant staffing revenues are recognized when the services are rendered by the Company's temporary employees. Employees placed on temporary assignment by the Company are the Company's legal employees while they are working on assignments. The Company pays all related costs of employment, including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company assumes the risk of acceptability of its employees to its customers.

**Permanent placement staffing revenues** Permanent placement staffing revenues are recognized when employment candidates accept offers of permanent employment. The Company has a substantial history of estimating the effect of permanent placement candidates who do not remain with its clients through the 90-day guarantee period. Allowances are established to estimate these losses. Fees to clients are generally calculated as a percentage of the new employee's annual compensation. No fees for permanent placement services are charged to employment candidates.

**Risk consulting and internal audit revenues** Risk consulting and internal audit services are generally provided on a time-and-material basis or fixed-fee basis. Revenues earned under time-and-material arrangements are recognized as services are provided. Revenues on fixed-fee arrangements are recognized using a proportional performance method as hours are incurred relative to total estimated hours for the engagement. The Company periodically evaluates the need to provide for any losses on these projects, and losses are recognized when it is probable that a loss will be incurred.

**Costs of Services.** Direct costs of temporary and consultant staffing services consist of payroll, payroll taxes and insurance costs for the Company's temporary employees, as well as reimbursable expenses. Direct costs of permanent placement staffing services consist of reimbursable expenses. Risk consulting and internal audit costs of services include professional staff payroll, payroll taxes and insurance costs, as well as reimbursable expenses.

**Advertising Costs.** The Company expenses all advertising costs as incurred. Advertising expense totaled \$18.6 million and \$16.1 million for the six months ended June 30, 2010 and 2009, respectively.

**Comprehensive Income.** Comprehensive income includes net income and certain other items that are recorded directly to Stockholders' Equity. The Company's only source of other comprehensive income is foreign currency translation adjustments. The components of comprehensive income, net of tax, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 12,181	\$ 5,416	\$ 20,656	\$ 14,204
Translation adjustments	(9,753)	16,626	(14,676)	7,397
<b>Total comprehensive income</b>	<b>\$ 2,428</b>	<b>\$ 22,042</b>	<b>\$ 5,980</b>	<b>\$ 21,601</b>

**Cash and Cash Equivalents.** The Company considers all highly liquid investments with a maturity at the date of purchase of three months or less as cash equivalents.

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**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

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

**June 30, 2010**

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

*Accounts Receivable Allowances.* The Company maintains allowances for estimated losses resulting from (i) the inability of its customers to make required payments, (ii) temporary placement sales adjustments, and (iii) permanent placement candidates not remaining with the client through the 90-day guarantee period, commonly referred to as "fall offs". The Company establishes these allowances based on its review of customers' credit profiles, historical loss statistics and current trends.

*Goodwill and Intangible Assets.* Goodwill and intangible assets primarily consist of the cost of acquired companies in excess of the fair market value of their net tangible assets at the date of acquisition. Identifiable intangible assets are amortized over their lives, typically ranging from two to five years. Goodwill is not amortized, but is tested at least annually for impairment. The Company completed its annual goodwill impairment analysis as of June 30, 2010, and determined that no adjustment to the carrying value of goodwill was required.

*Income Tax Assets and Liabilities.* In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. Deferred tax assets and liabilities are measured and recorded using current enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled. The likelihood of a material change in the Company's expected realization of these assets is dependent on future taxable income, its ability to use foreign tax credit carryforwards and carrybacks, final U.S. and foreign tax settlements, and the effectiveness of its tax strategies in the various relevant jurisdictions.

*Workers' Compensation.* Except for states which require participation in state-operated insurance funds, the Company retains the economic burden for the first \$0.5 million per occurrence in workers' compensation claims. Workers' compensation includes ongoing healthcare and indemnity coverage for claims and may be paid over numerous years following the date of injury. Claims in excess of \$0.5 million are insured. Workers' compensation expense includes the insurance premiums for claims in excess of \$0.5 million, claims administration fees charged by the Company's workers' compensation administrator, premiums paid to state-operated insurance funds, and an estimate for the Company's liability for Incurred But Not Reported (IBNR) claims and for the ongoing development of existing claims.

The accrual for IBNR claims and for the ongoing development of existing claims in each reporting period includes estimates. The Company has established reserves for workers' compensation claims using loss development rates which are estimated using periodic third-party actuarial valuations based upon historical loss statistics which include the Company's historical frequency and severity of workers' compensation claims, and an estimate of future cost trends. While management believes that its assumptions and estimates are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's future results.

*Foreign Currency Translation.* The results of operations of the Company's foreign subsidiaries are translated at the monthly average exchange rates prevailing during the period. The financial position of the Company's foreign subsidiaries is translated at the current exchange rates at the end of the period, and the related translation adjustments are recorded as a component of accumulated other comprehensive income within Stockholders' Equity. Gains and losses resulting from foreign currency transactions are included as a component of selling, general and administrative expenses in the unaudited Condensed Consolidated Statements of Operations, and have not been material for all periods presented.

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**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****June 30, 2010****Note A Summary of Significant Accounting Policies (Continued)**

*Stock-based Compensation.* 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.

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. The Company recognizes compensation expense for only the portion of restricted stock and stock units that is expected to vest, rather than record forfeitures when they occur. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods. For purposes of calculating stock-based compensation expense for retirement-eligible employees, the service period is assumed to be met on the grant date or retirement-eligible date, whichever is later.

No stock appreciation rights have been granted under the Company's existing stock plans.

The Company determines the fair value of options to purchase common stock using the Black-Scholes valuation model. The Company recognizes expense over the service period for options that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates. The Company has not granted any options to purchase common stock since 2006.

*Property and Equipment.* Property and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the following useful lives:

Computer hardware	2 to 3 years
Computer software	2 to 5 years
Furniture and equipment	5 years
Leasehold improvements	Term of lease, 5 years maximum

*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. The Company capitalized \$4.0 million and \$11.9 million of internal-use software development costs for the six months ended June 30, 2010 and 2009, respectively.

**Note B New Accounting Pronouncements**

*Revenue Recognition Multiple-Deliverable Revenue Arrangements.* In October 2009, the Financial Accounting Standards Board ( FASB ) issued authoritative guidance which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Furthermore, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. This authoritative guidance is effective for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have a material effect on its Financial Statements.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2010

**Note C Other Current Assets**

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

	June 30, 2010	December 31, 2009
Deposits in trusts for employee benefits and retirement plans	\$ 75,377	\$ 77,014
Other	53,402	65,791
	\$ 128,779	\$ 142,805

**Note D Goodwill**

The following table sets forth the activity in goodwill from December 31, 2009, through June 30, 2010 (in thousands):

	Goodwill
Balance as of December 31, 2009	\$ 189,336
Translation adjustments	(723)
Balance as of June 30, 2010	\$ 188,613

**Note E Property and Equipment, Net**

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

	June 30, 2010	December 31, 2009
Computer hardware	\$ 111,268	\$ 121,063
Computer software	224,355	222,464
Furniture and equipment	121,730	130,296
Leasehold improvements	116,549	127,613
Other	14,971	15,248
Property and equipment, cost	588,873	616,684
Accumulated depreciation	(480,555)	(492,026)
Property and equipment, net	\$ 108,318	\$ 124,658

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2010

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

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

	June 30, 2010	December 31, 2009
Payroll and benefits	\$ 129,480	\$ 126,874
Employee retirement obligations	77,804	75,392
Workers compensation	24,918	25,730
Payroll taxes	27,113	37,249
	\$ 259,315	\$ 265,245

Included in employee retirement obligations is \$66 million at June 30, 2010, and \$64 million at December 31, 2009, related to the Company's Chief Executive Officer for a deferred compensation plan and other benefits.

**Note G Commitments and Contingencies**

On September 10, 2004, Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. On September 18, 2006, the Court issued an order certifying a class with respect to claims for alleged unpaid overtime pay and related statutory penalties but denied certification with respect to claims relating to meal periods and rest time breaks. The Court has stayed the litigation until a decision by the California Supreme Court in a case titled *Pellegrino, et al. v. Robert Half International Inc.* As disclosed in the Company's Form 10-Q for the quarter ended June 30, 2007, the Company believes that *Pellegrino* is not a material pending legal proceeding. However, rulings by the California Supreme Court in *Pellegrino* or in *Harris v. Superior Court*, a case unrelated to the Company, may have a material adverse bearing on the Company's position in this litigation. The *Laffitte* case is set for mediation on August 10, 2010. There is no assurance that this case will settle at the mediation. If settled at mediation, the amounts paid by the Company may be material. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On May 4, 2006, Plaintiff Don Tran, on behalf of himself and a putative class of salaried Consultants and Senior Consultants, and a sub-class of terminated salaried Consultants and Senior Consultants, filed a complaint in California Superior Court naming Protiviti Inc., a wholly owned subsidiary of the Company (Protiviti), as Defendant. The complaint alleges that salaried Consultants based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt, hourly employees. Plaintiff also seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. The complaint further seeks damages and penalties for the failure to

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**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

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

**June 30, 2010**

**Note G Commitments and Contingencies (Continued)**

provide meal and rest periods. On December 18, 2008, the Court ruled that it would certify two classes, one of California Consultants and another of California Senior Consultants, on the overtime pay claims. The Court also ruled that it would deny certification, without prejudice, on the claims for alleged unpaid meal and rest breaks. Further, it ruled that the Plaintiffs must submit a detailed trial plan, which the Court may use to revisit the class certification issue. Notice of the lawsuit has been mailed to the two classes and the period for potential class members to opt out of the classes closed on September 5, 2009. No trial date has been set. On July 13, 2010, the parties to this action entered into a Memorandum of Agreement, which is expected to settle and resolve the claims included in the complaint. The actual settlement of the case is contingent upon the parties' execution of a formal written settlement agreement approved by the Court. Based on the settlement terms contained in the Memorandum of Agreement, the Company has determined that this litigation is not currently a material pending legal proceeding. Accordingly, the Company does not presently intend to make disclosures regarding this case in its future Securities and Exchange Commission filings.

On September 24, 2007, Plaintiff Van Williamson, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California were not provided meal periods, paid rest periods, and accurate itemized wage statements. It seeks one hour of wages for each employee for each meal and rest period missed during the statutory liability period. It also seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged failure to provide the meal and rest periods and accurate itemized wage statements. The allegations in the complaint are substantially similar to the allegations included in the complaint filed by Mark Laffitte described above. The Court stayed the litigation pending the California Supreme Court's decisions in two cases unrelated to the Company: *Brinker Restaurant Corp. v. Superior Court* and *Harris*, a case referenced elsewhere in this Note G. A ruling in the *Harris* case, the *Brinker* case, and/or the *Pellegrino* case referenced elsewhere in this Note G, may have a material adverse bearing on the Company's position in this litigation. The *Williamson* case is set for mediation on August 10, 2010. There is no assurance that this case will settle at the mediation. If settled at mediation, the amounts paid by the Company may be material. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On September 16, 2008, Plaintiff Donald R. Green, on behalf of himself and a putative class of all temporary staffing employees in California, filed a complaint in California Superior Court naming the Company and one of its wholly owned subsidiaries as Defendants. The complaint alleges that temporary employees in California were improperly denied expense reimbursement and wages for time purportedly spent preparing for interviews, and traveling to and attending interviews with, alleged clients and potential clients of Defendants. Plaintiff seeks penalties and equitable and legal remedies under Section 17200 of the California Business and Professions Code and Sections 1194 and 2802 of the California Labor Code. On June 29, 2010, the Company became aware that the plaintiff and sole putative class representative in this matter, Donald R. Green, died on or about October 29, 2009. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to vigorously defend against the litigation.



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**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

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

**June 30, 2010**

**Note G Commitments and Contingencies (Continued)**

On December 28, 2009, Plaintiff Eric Presser, on behalf of himself and a putative class of all allegedly similarly situated Staffing Managers in the state of Florida, filed a complaint in the United States District Court for the Middle District of Florida naming the Company as Defendant. On July 9, 2010, the Court approved a settlement agreement in an amount immaterial to the Company and dismissed the complaint. Accordingly, the Company will not make disclosures regarding this matter 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. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding 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 vigorously defend against the litigation.

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, 2010, the Company is authorized to repurchase, from time to time, up to 2.6 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, 2010 and 2009, the Company repurchased 2.5 million shares and 1.5 million shares of common stock on the open market for a total cost of \$66 million and \$31 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, 2010 and 2009, such repurchases totaled 0.2 million shares and 1.2 million shares, at a cost of \$6 million and \$27 million, respectively. Repurchases of shares have been funded with cash generated from operations.

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, 2010 and 2009 (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. During the six months ended June 30, 2010 and 2009, the Company declared cash dividends of \$.26 per share and \$.24 per share, respectively.

**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**

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

**June 30, 2010**

**Note H Stockholders Equity (Continued)**

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, 2010, and December 31, 2009.

**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 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)

June 30, 2010

**Note J Net Income Per Share**

The calculation of net income per share for the three and six months ended June 30, 2010 and 2009, is reflected in the following table (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Basic net income per share:				
Net income	\$ 12,181	\$ 5,416	\$ 20,656	\$ 14,204
Income allocated to participating securities	521	615	1,370	1,094
Net income available to common stockholders	\$ 11,660	\$ 4,801	\$ 19,286	\$ 13,110
Basic weighted average shares	143,100	146,443	143,667	146,660
Basic net income per share	\$ .08	\$ .03	\$ .13	\$ .09
Diluted net income per share:				
Net income	\$ 12,181	\$ 5,416	\$ 20,656	\$ 14,204
Income allocated to participating securities	521	615	1,370	1,094
Net income available to common stockholders	\$ 11,660	\$ 4,801	\$ 19,286	\$ 13,110
Basic weighted average shares	143,100	146,443	143,667	146,660
Dilutive effect of potential common shares	1,231	601	1,332	432
Diluted weighted average shares	144,331	147,044	144,999	147,092
Diluted net income per share	\$ .08	\$ .03	\$ .13	\$ .09

Based on FASB authoritative guidance which became effective January 1, 2009, the Company's unvested restricted stock awards, other than for grants that contain a performance condition and grants made on or after July 28, 2009, contain non-forfeitable rights to dividends and are therefore participating securities that are included in the earnings allocation in computing net income per share pursuant to the two-class method.

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 months ended June 30, 2010 and 2009, respectively, excludes the effect of 0.8 million and 4.7 million anti-dilutive potential common shares. The weighted average diluted common shares outstanding for the six months ended June 30, 2010 and 2009, respectively, excludes the effect of 0.6 million and 5.8 million anti-dilutive potential common shares. 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)

June 30, 2010

**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. The Company evaluates performance based on income or loss from operations before 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net service revenues				
Temporary and consultant staffing	\$ 619,797	\$ 616,333	\$ 1,218,483	\$ 1,288,918
Permanent placement staffing	56,133	43,526	104,772	93,467
Risk consulting and internal audit services	93,160	90,028	183,008	190,827
	\$ 769,090	\$ 749,887	\$ 1,506,263	\$ 1,573,212
Operating income (loss)				
Temporary and consultant staffing	\$ 23,571	\$ 25,208	\$ 40,517	\$ 65,045
Permanent placement staffing	5,540	(1,965)	8,656	(6,198)
Risk consulting and internal audit services	(6,772)	(13,193)	(14,374)	(32,119)
	22,339	10,050	34,799	26,728
Amortization of intangible assets	46	280	315	898
Interest income, net	(94)	(455)	(168)	(1,075)
Income before income taxes	\$ 22,387	\$ 10,225	\$ 34,652	\$ 26,905

**Note L Subsequent Events**

On July 28, 2010, the Company announced a quarterly dividend of \$.13 per share to be paid to all shareholders of record as of August 25, 2010. The dividend will be paid on September 15, 2010.

**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 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*

As described below, the Company's most critical accounting policies and estimates are those that involve subjective decisions or assessments.

*Accounts Receivable Allowances.* The Company maintains allowances for estimated losses resulting from (i) the inability of its customers to make required payments, (ii) temporary placement sales adjustments, and (iii) permanent placement candidates not remaining with the client through the 90-day guarantee period, commonly referred to as "fall offs". The Company establishes these allowances based on its review of customers' credit profiles, historical loss statistics and current trends. The adequacy of these allowances is reviewed each reporting period. Historically, the Company's actual losses and credits have been consistent with these allowances. As a percentage of gross accounts receivable, the Company's accounts receivable allowances totaled 4.8% and 5.6% as of June 30, 2010, and December 31, 2009, respectively. As of June 30, 2010, a five-percentage point deviation in the Company's accounts receivable allowances balance would have resulted in an increase or decrease in the allowance of \$1.0 million. Although future results cannot always be predicted by

extrapolating past results, management believes that it is reasonably likely that future results will be consistent with historical trends and experience. However, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, or if unexpected events or significant future changes in trends were to occur, additional allowances may be required.

*Income Tax Assets and Liabilities.* In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. Deferred tax assets and liabilities are measured and recorded using current enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled. The likelihood of a material change in the Company's expected realization of these assets is dependent on future taxable income, its ability to use foreign tax credit carryforwards and carrybacks, final U.S. and foreign tax settlements, and the effectiveness of its tax planning in the various relevant jurisdictions.

The Company also evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. Management evaluates all positive and negative evidence and uses judgment regarding past and future events, including operating results, to help determine when it is more likely than not that all or some portion of our deferred tax assets may not be realized. When appropriate, a valuation allowance is recorded against deferred tax assets to offset future tax benefits that may not be realized. In relation to actual net operating losses in certain foreign operations, valuation allowances of \$21.1 million and \$21.2 million were recorded as of June 30, 2010 and December 31, 2009, respectively. If such losses are ultimately utilized to offset future operating income, the Company will benefit its deferred tax assets up to the full amount of the valuation reserve.

While management believes that its judgments and interpretations regarding income taxes are appropriate, significant differences in actual experience may materially affect the future financial results of the Company.

*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 Financial Accounting Standards Board ( FASB ) authoritative guidance. The Company completed its annual goodwill impairment analysis as of June 30, 2010, and determined that no adjustment to the carrying value of goodwill was required.

FASB authoritative guidance requires 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 impairment assessment 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, 2010, of \$127.1 million, \$26.5 million, \$0.0 million, \$7.1 million, \$0.0 million and \$27.9 million, respectively, totaling \$188.6 million. There were no changes to the Company's reporting units or to the allocations of goodwill by reporting unit through June 30, 2010.

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 2010, followed by a recovery period in 2011 and 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 years beyond 2012, used a 5% growth factor to calculate the terminal value at the end of ten years for each unit. This rate is significantly lower than the Company's historical ten-year annual compound revenue growth rate. In its most recent calculation, the Company used a 9.6% discount rate, which is lower than the 10.7% discount rate used for the Company's last test during the second quarter of 2009. This decline in discount rate is primarily due to a decline in beta and the market risk premium.

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 48% 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.

*Workers' Compensation.* Except for states which require participation in state-operated insurance funds, the Company retains the economic burden for the first \$0.5 million per occurrence in workers' compensation claims. Workers' compensation includes ongoing healthcare and indemnity coverage for claims and may be paid over numerous years following the date of injury. Claims in excess of \$0.5 million are insured. Workers' compensation expense includes the insurance premiums for claims in excess of \$0.5 million, claims administration fees charged by the Company's workers' compensation administrator, premiums paid to state-operated insurance funds, and an estimate for the Company's liability for Incurred But Not Reported (IBNR) claims and for the ongoing development of existing claims. Total workers' compensation expense was \$3.3 million and \$5.4 million, representing 0.31% and 0.48% of applicable U.S. revenue for the six months ended June 30, 2010 and 2009, respectively.

The accrual for IBNR claims and for the ongoing development of existing claims in each reporting period includes estimates. The Company has established reserves for workers' compensation claims using loss development rates which are estimated using periodic third-party actuarial valuations based upon historical loss statistics which include the Company's historical frequency and severity of workers' compensation claims, and an estimate of future cost trends. While management believes that its assumptions and estimates are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's future results. Based on the Company's results for the six months ended June 30, 2010, a five-percentage point deviation in the Company's estimated loss development rates would have resulted in an increase or decrease in the allowance of \$0.1 million.

*Stock-based Compensation.* 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.



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. The Company recognizes compensation expense for only the portion of restricted stock and stock units that is expected to vest, rather than record forfeitures when they occur. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods. For purposes of calculating stock-based compensation expense for retirement-eligible employees, the service period is assumed to be met on the grant date or retirement-eligible date, whichever is later.

No stock appreciation rights have been granted under the Company's existing stock plans.

The Company determines the fair value of options to purchase common stock using the Black-Scholes valuation model. The Company recognizes expense over the service period for options that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates. The Company has not granted any options to purchase common stock since 2006.

For the three months ended June 30, 2010 and 2009, compensation expense related to restricted stock and stock units was \$14.9 million and \$15.7 million, respectively, of which \$3.3 million and \$3.3 million was related to grants made in 2010 and 2009, respectively. A one-percentage point deviation in the estimated forfeiture rates would have resulted in a \$0.1 million increase or decrease in compensation expense related to restricted stock and stock units for the three months ended June 30, 2010 and \$0.2 million increase or decrease in compensation expense related to restricted stock and stock units for the three months ended June 30, 2009. For the six months ended June 30, 2010 and 2009, compensation expense related to restricted stock and stock units was \$29.0 million and \$30.1 million, respectively, of which \$5.4 million and \$4.9 million was related to grants made in 2010 and 2009, respectively. A one-percentage point deviation in the estimated forfeiture rates would have resulted in a \$0.3 million increase or decrease in compensation expense related to restricted stock and stock units for both the six months ended June 30, 2010 and 2009.

#### *Recent Accounting Pronouncements*

*Revenue Recognition - Multiple-Deliverable Revenue Arrangements.* In October 2009, the Financial Accounting Standards Board ( FASB ) issued authoritative guidance which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Furthermore, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. This authoritative guidance is effective for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have a material effect on its Financial Statements.

#### *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. Correspondingly, results of operations for the six months ended June 30, 2010, were negatively impacted by difficult global economic conditions. 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 2010.

The Company's temporary and permanent placement staffing services business has more than 350 offices in 42 states, the District of Columbia and 20 foreign countries, while Protiviti has more than 60 offices in 23 states and 16 foreign countries.

Because fluctuations in foreign currency exchange rates have an impact on the Company's results, the Company provides selected growth percentages below on a constant-currency basis. Constant-currency percentages are calculated using as-reported amounts which have been retranslated using foreign currency exchange rates from the prior year's comparable period.

*Three months ended June 30, 2010 and 2009*

*Revenues.* The Company's revenues were \$769 million for the three months ended June 30, 2010, increasing by 3% compared to \$750 million for the three months ended June 30, 2009. Revenues from foreign operations represented 28% of total revenues for both the three months ended June 30, 2010, and the three months ended June 30, 2009. 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 second quarter of 2010, revenues for all three of the Company's reportable segments were up compared to the second quarter of 2009. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$620 million for the three months ended June 30, 2010, increasing by 1% compared to revenues of \$616 million for the three months ended June 30, 2009. On a constant-currency basis, temporary and consultant staffing services revenues remained essentially flat for the second quarter of 2010 compared to the second quarter of 2009. In the United States, revenues in the second quarter of 2010 increased 1% compared to the second quarter of 2009. On a constant-currency basis, the Company's revenues from foreign operations remained flat in the second quarter of 2010 compared to the second quarter of 2009.

Permanent placement staffing revenues were \$56 million for the three months ended June 30, 2010, increasing by 29% compared to revenues of \$44 million for the three months ended June 30, 2009. On a constant-currency basis, permanent placement revenues increased 27% for the second quarter of 2010 compared to the second quarter of 2009. In the United States, revenues in the second quarter of 2010 increased 32% compared to the second quarter of 2009. 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. On a constant-currency basis, the Company's revenues from foreign operations increased 22% in the second quarter of 2010 compared to the second quarter of 2009.

Risk consulting and internal audit services revenues were \$93 million for the three months ended June 30, 2010, increasing by 4% compared to revenues of \$90 million for the three months ended June 30, 2009. On a constant-currency basis, risk consulting and internal audit services revenues increased 3% for the second quarter of 2010 compared to the second quarter of 2009. Contributing to the increase was the improved economic condition in U.S. In the United States, revenues in the second quarter of 2010 increased 6% compared to the second quarter of 2009. On a constant-currency basis, the Company's revenues from foreign operations decreased 3% in the second quarter of 2010 compared to the second quarter of 2009.

*Gross Margin.* The Company's gross margin dollars were \$290 million for the three months ended June 30, 2010, increasing by 9% compared to \$265 million for the three months ended June 30, 2009. In the second quarter of 2010, gross margin dollars for all three of the Company's reportable segments were up compared to the second quarter of 2009. Gross margin as a percentage of revenues increased for the Company's temporary and consultant staffing services segment and 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 \$212 million for the three months ended June 30, 2010, increasing by 2% compared to \$207 million for the three months ended June 30, 2009. On a constant-currency basis, temporary and consultant staffing services gross

margin dollars increased 2% for the second quarter of 2010 compared to the second quarter of 2009. As a percentage of revenues, gross margin for temporary and consultant staffing services was 34.1% in the second

quarter of 2010, up from 33.5% in the second quarter of 2009. The higher temporary and consultant gross margin percentage is primarily the result of higher conversion revenues, coupled with lower workers' compensation expense, which resulted from semi-annual, third-party actuarial reviews. Conversion revenues are earned when a temporary position converts to a permanent position. As there are no direct costs related to conversion revenues, the gross margin percentage is favorably impacted as the mix of conversion revenues increases.

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 \$56 million for the three months ended June 30, 2010, increasing by 29% compared to \$43 million for the three months ended June 30, 2009. On a constant-currency basis, permanent placement gross margin dollars increased 27% for the second quarter of 2010 compared to the second quarter of 2009. 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 \$22 million for the three months ended June 30, 2010, increasing by 50% compared to \$15 million for the three months ended June 30, 2009. On a constant-currency basis, risk consulting and internal audit gross margin dollars increased 50% for the second quarter of 2010 compared to the second quarter of 2009. As a percentage of revenues, gross margin for risk consulting and internal audit services was 24.0% in the second quarter of 2010, up from 16.5% in the second quarter of 2009. The year-over-year margin increase is primarily due to higher staff utilization levels, lower staff reduction charges and lower payroll expense resulting from reduced headcount.

*Selling, General and Administrative Expenses.* The Company's selling, general and administrative expenses were \$268 million for the three months ended June 30, 2010, increasing by 5% compared to \$255 million for the three months ended June 30, 2009. As a percentage of revenues, the Company's selling, general and administrative expenses were 34.8% for the second quarter of 2010, up from 34.0% for the second quarter of 2009. For the second quarter of 2010 compared to the second quarter of 2009, selling, general and administrative expenses increased for all three of the Company's reportable segments. Selling, general and administrative expenses as a percentage of revenues increased for the Company's temporary and consultant staffing services division, but decreased for the Company's permanent placement staffing division, and remained flat for the Company's risk consulting and internal audit services division in the second quarter of 2010 compared to the second quarter of 2009. 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 \$188 million for the three months ended June 30, 2010, up 4% from \$182 million for the three months ended June 30, 2009. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 30.3% in the second quarter of 2010, up from 29.4% in the second quarter of 2009. For the second quarter of 2010 compared to the second quarter of 2009, the increase in selling, general and administrative expenses as a percentage of revenue is primarily due to higher advertising and variable overhead, which includes special charges of \$2.6 million related to the settlement of several outstanding litigation claims, primarily related to wage and hour labor laws. These cases have been outstanding for many years. While the company continues to believe it has meritorious defenses, these cases were settled primarily to avoid potentially significant additional costs that would result from protracted litigation.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$51 million for the three months ended June 30, 2010, increasing by 11% compared to \$45 million for the three months ended June 30, 2009. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 90.1% in the second quarter of 2010, down from 104.4% in the second quarter of 2009. For the second quarter of 2010 compared to the second quarter of 2009, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to lower field compensation, advertising, administrative compensation, fixed overhead, and variable overhead.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$29 million for the three months ended June 30, 2010, increasing by 4% compared to \$28 million for the three months ended June 30, 2009. Selling, general and administrative expenses for the Company's risk consulting and internal audit services division for the three months ended June 30, 2010, includes special charges of \$2.4 million to settle outstanding litigation claims, primarily a case related to wage and hour labor laws. This case covered an 8+ year period dating back to May 2002. While the company continues to believe it has meritorious defenses, these cases were settled primarily to avoid future litigation costs. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 31.2% in the second quarter of 2010, flat compared to the second quarter of 2009.

*Operating Income.* The Company's total operating income was \$22 million, or 2.9% of revenues, for the three months ended June 30, 2010, increasing by 122% from \$10 million, or 1.3% of revenues, for the three months ended June 30, 2009. For the Company's temporary and consultant staffing services division, operating income was \$24 million, or 3.8% of applicable revenues, down from \$25 million, or 4.1% of applicable revenues, in the second quarter of 2009. For the Company's permanent placement staffing division, operating income was \$5 million, or 9.9% of applicable revenues, up from an operating loss of \$2 million, or negative 4.5% of applicable revenues, in the second quarter of 2009. For the Company's risk consulting and internal audit services division, operating loss was \$7 million, or negative 7.3% of applicable revenues, down from an operating loss of \$13 million, or negative 14.7% of applicable revenues, in the second quarter of 2009.

*Amortization of intangible assets.* Amortization of intangible assets was \$0.0 and \$0.3 million for the three months ended June 30, 2010 and 2009, respectively. Intangible assets result from the Company's acquisitions. For acquisitions, the Company allocates the excess of cost over the fair market value of the net tangible assets first to identifiable intangible assets, if any, and then to goodwill. Identifiable intangible assets are amortized over their lives, typically ranging from two to five years. Goodwill is not amortized, but is tested at least annually for impairment. Net intangible assets, consisting primarily of goodwill, represented 16% of total assets and 23% of total stockholders' equity at June 30, 2010.

*Interest income and expense.* Interest income for the three months ended June 30, 2010 and 2009, was \$0.2 million and \$0.5 million, respectively. Lower second quarter 2010 interest income was due to lower interest rates and lower average cash balances. Interest expense for the three months ended June 30, 2010 and 2009, was \$0.1 million and \$0.0 million, respectively.

*Provision for income taxes.* The provision for income taxes was 46% and 47%, as a percentage of income before income taxes, for the three months ended June 30, 2010 and 2009, respectively. The decrease is due primarily to the impact of permanent non-deductible tax items, which became less significant relative to the Company's improved financial results.

#### *Six months ended June 30, 2010 and 2009*

*Revenues.* The Company's revenues were \$1.5 billion for the six months ended June 30, 2010, decreasing by 4% compared to \$1.6 billion for the six months ended June 30, 2009. Revenues from foreign operations represented 29% and 28% of total revenues for the six months ended June 30, 2010 and 2009, 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 2010, revenues for the Company's temporary and consultant staffing services segment and for the risk consulting and internal audit services division were down compared to the first half of 2009. In the first half of 2010, revenues for the Company's permanent placement staffing service was up compared to the first half of 2009. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$1.2 billion for the six months ended June 30, 2010, decreasing by 5% compared to revenues of \$1.3 billion for the six months ended June 30, 2009. On a constant-

currency basis, temporary and consultant staffing services revenues decreased 7% for the first half of 2010 compared to the first half of 2009. In the United States, revenues in the first half of 2010 decreased 6% compared to the first half of 2009. For the Company's foreign operations, constant-currency revenues in the first half of 2010 decreased 10% compared to the first half of 2009.

Permanent placement revenues were \$105 million for the six months ended June 30, 2010, increasing by 12% compared to revenues of \$93 million for the six months ended June 30, 2009. On a constant-currency basis, permanent placement revenues increased 8% for the first half of 2010 compared to the first half of 2009. In the United States, revenues in the first half of 2010 increased 8% compared to the first half of 2009. 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 foreign operations, constant-currency revenues in the first half of 2010 increased 9% compared to the first half of 2009.

Risk consulting and internal audit services revenues were \$183 million for the six months ended June 30, 2010, decreasing by 4% compared to revenues of \$191 million for the six months ended June 30, 2009. On a constant-currency basis, risk consulting and internal audit services revenues decreased 5% for the first half of 2010 compared to the first half of 2009 as weak global macroeconomic conditions negatively impacted demand. Contributing to the decrease was a significant decline in revenues produced by compliance-related projects, mainly those tied to the Sarbanes-Oxley Act, a trend which may continue. In the United States, revenues in the first half of 2010 decreased 2% compared to the first half of 2009. For the Company's foreign operations, constant-currency revenues in the first half of 2010 decreased 12% compared to the first half of 2009.

*Gross Margin.* The Company's gross margin dollars were \$558 million for the six months ended June 30, 2010, down slightly from \$559 million for the six months ended June 30, 2009. For the first half of 2010 compared to the first half of 2009, gross margin dollars increased for the Company's permanent placement staffing services and risk consulting and internal audit services divisions. Gross margin dollars for the Company's temporary and consultant staffing services division decreased for the first half of 2010 compared to the first half of 2009. Gross margin as a percentage of revenues decreased for the Company's temporary and consultant staffing services division and increased 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 \$412 million for the six months ended June 30, 2010, decreasing by 6% compared to \$440 million for the six months ended June 30, 2009. On a constant-currency basis, temporary and consultant staffing services gross margin dollars decreased 8% for the first half of 2010 compared to the first half of 2009. As a percentage of revenues, gross margin for temporary and consultant staffing services was 33.9% in the first half of 2010, down from 34.1% in the first half of 2009. This year-over-year decrease was the result of lower pay/bill spreads in the first half of 2010.

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 \$105 million for the six months ended June 30, 2010, increasing by 12% compared to \$93 million for the six months ended June 30, 2009. On a constant-currency basis, permanent placement gross margin dollars increased 8% for the first half of 2010 compared to the first half of 2009. 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 \$41 million

for the six months ended June 30, 2010, increasing by 61% compared to \$26 million for the six months ended June 30, 2009. On a constant-currency basis, risk consulting and internal audit gross margin dollars increased 59% for the first half of 2010 compared to the first half of 2009. As a percentage of revenues, gross margin for risk consulting and internal audit services was 22.3% in for the first half of 2010, up from 13.3% in the first half of 2009. The year-over-year margin increase is primarily due to higher staff utilization levels, as well as lower staff reduction charges.

*Selling, General and Administrative Expenses.* The Company's selling, general and administrative expenses were \$523 million for the six months ended June 30, 2010, decreasing by 2% compared to \$532 million for the six months ended June 30, 2009. As a percentage of revenues, the Company's selling, general and administrative expenses were 34.7% for the first half of 2010, up from 33.8% for the first half of 2009. For the first half of 2010 compared to the first half of 2009, selling, general and administrative expenses decreased for all three of the Company's reportable segments. Selling, general and administrative expenses as a percentage of revenues increased for the Company's temporary and consulting staffing services division, and decreased for the Company's permanent placement staffing division and risk consulting and internal audit services division in the first half of 2010 compared to the first half of 2009. 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 \$372 million for the six months ended June 30, 2010, down 1% from \$375 million for the six months ended June 30, 2009. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 30.5% in the first half of 2010, up from 29.1% in the first half of 2009. For the first half of 2010 compared to the first half of 2009, increases as a percentage of revenues for advertising, administration costs and variable overhead drove the overall increase.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$96 million for the six months ended June 30, 2010, decreasing by 4% compared to \$100 million for the six months ended June 30, 2009. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 91.7% in the first half of 2010, down from 106.5% in the first half of 2009. For the first half of 2010 compared to the first half of 2009, decreases as a percentage of revenues for fixed overhead, field compensation, administration costs, variable overhead, advertising and expenses related to doubtful accounts receivable drove the overall decrease.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$55 million for the six months ended June 30, 2010, decreasing by 4% compared to \$57 million for the six months ended June 30, 2009. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 30.1% in the first half of 2010, down from 30.2% in the first half of 2009. For the first half of 2010 compared to the first half of 2009, decreases as a percentage of revenues for fixed overhead and expenses related to doubtful accounts receivable were partially offset by increases as a percentage of revenues for variable overhead and administration costs.

*Operating Income.* The Company's total operating income was \$35 million, or 2.3% of revenues, for the six months ended June 30, 2010, increasing by 30% from \$27 million, or 1.7% of revenues, for the six months ended June 30, 2009. For the Company's temporary and consultant staffing services division, operating income was \$40 million, or 3.3% of applicable revenues, down from \$65 million, or 5.0% of applicable revenues, in the first half of 2009. For the Company's permanent placement staffing division, operating income was \$9 million, or 8.3% of applicable revenues, up from operating loss of \$6 million, or negative 6.6% of applicable revenues, in the first half of 2009. For the Company's risk consulting and internal audit services division, operating loss was \$14 million, or negative 7.9% of applicable revenues, down from an operating loss of \$32 million, or negative 16.8% of applicable revenues, in the first half of 2009.

*Amortization of intangible assets.* Amortization of intangible assets was \$0.3 and \$0.9 million for the six months ended June 30, 2010 and 2009, respectively. Intangible assets result from the Company's acquisitions.

For acquisitions, the Company allocates the excess of cost over the fair market value of the net tangible assets first to identifiable intangible assets, if any, and then to goodwill. Identifiable intangible assets are amortized over their lives, typically ranging from two to five years. Goodwill is not amortized, but is tested at least annually for impairment. Net intangible assets, consisting primarily of goodwill, represented 16% of total assets and 23% of total stockholders' equity at June 30, 2010.

*Interest income and expense.* Interest income for the six months ended June 30, 2010 and 2009, was \$0.5 million and \$1.2 million, respectively. Lower interest income in the first half of 2010 was due to lower interest rates and lower average cash balances. Interest expense for the six months ended June 30, 2010 and 2009, was \$0.3 million and \$0.1 million, respectively.

*Provision for income taxes.* The provision for income taxes was 40% and 47%, as a percentage of income before income taxes, for the six months ended June 30, 2010 and 2009, respectively. The 2010 decrease is due to state income tax credits the Company claimed in the first quarter of 2010 and the diminishing impact of permanent non-deductible tax items, which became increasingly less significant relative to the Company's improved financial results.

#### *Liquidity and Capital Resources*

The change in the Company's liquidity during the six months ended June 30, 2010 and 2009, 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 \$290 million and \$386 million at June 30, 2010 and 2009, respectively. Operating activities provided \$51 million during the six months ended June 30, 2010, which was more than offset by \$14 million and \$104 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$126 million during the six months ended June 30, 2009, partially offset by \$25 million and \$74 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, 2010, was comprised of net income of \$21 million, adjusted for non-cash items of \$52 million, and offset by changes in working capital of \$22 million. Net cash provided by operating activities for the six months ended June 30, 2009, was composed of net income of \$14 million, adjusted for non-cash items of \$63 million, and net cash provided by changes in working capital of \$49 million.

*Investing activities* Cash used in investing activities for the six months ended June 30, 2010, was \$14 million. This was primarily comprised of capital expenditures of \$14 million. Cash used in investing activities for the six months ended June 30, 2009, was \$25 million. This was primarily composed of capital expenditures of \$24 million and deposits to trusts for employee benefits and retirement plans of \$1 million.

*Financing activities* Cash used in financing activities for the six months ended June 30, 2010, was \$104 million. This included repurchases of \$72 million in common stock and \$38 million in cash dividends to stockholders, offset by proceeds of \$5 million from exercises of stock options and \$1 million in excess tax benefits from stock-based compensation. Cash used in financing activities for the six months ended June 30, 2009, was \$74 million. This included repurchases of \$58 million in common stock and \$36 million in cash dividends to stockholders, offset by proceeds of \$18 million from exercise of stock options and \$2 million in excess tax benefits from stock-based compensation.

As of June 30, 2010, the Company is authorized to repurchase, from time to time, up to 2.6 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, 2010 and 2009, the Company repurchased 2.5 million shares and 1.5 million shares of common stock on the open market for a total cost of \$66 million and \$31 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, 2010 and 2009, such repurchases

totaled 0.2 million shares and 1.2 million shares, at a cost of \$6 million and \$27 million, respectively. Repurchases of shares have been funded with cash generated from operations.

The Company's working capital at June 30, 2010, included \$290 million in cash and cash equivalents. The Company's working capital requirements relate primarily to accounts receivable. While there can be no assurances in this regard, 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. However, continued or increased volatility and disruption in the global capital and credit markets could negatively impact the Company's business operations and therefore its liquidity and ability to meet working capital needs.

On July 28, 2010, the Company announced a quarterly dividend of \$.13 per share to be paid to all shareholders of record as of August 25, 2010. The dividend will be paid on September 15, 2010.

### **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, 2010, approximately 29% of the Company's revenues were generated outside of the United States. 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 quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010 and its annual report on Form 10-K for the fiscal year ended December 31, 2009 contained disclosures regarding a complaint filed against Protiviti Inc., a wholly owned subsidiary of the Company, by Plaintiff Don Tran, on behalf of himself and a putative class of salaried Consultants and Senior Consultants in the state of California. On July 13, 2010, the parties to this action entered into a Memorandum of Agreement, which is expected to settle and resolve the claims included in the complaint. The actual settlement of the case is contingent upon the parties' execution of a formal written settlement agreement approved by the Court. Based on the settlement terms contained in the Memorandum of Agreement, the Company has determined that this litigation is not currently a material pending legal proceeding. Accordingly, the Company does not presently intend to make disclosures regarding this case in its future Securities and Exchange Commission filings.

The Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010 and its annual report on Form 10-K for the fiscal year ended December 31, 2009 contained disclosures regarding a complaint filed in California Superior Court by Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, naming the Company and three of its wholly owned subsidiaries as Defendants. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation. The case is set for mediation on August 10, 2010. There is no assurance that this case will settle at the mediation. If settled at mediation, the amounts paid by the Company may be material.

The Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010 and its annual report on Form 10-K for the fiscal year ended December 31, 2009 contained disclosures regarding a complaint filed in California Superior Court by Plaintiff Van Williamson, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, naming the Company and three of its wholly owned subsidiaries as Defendants. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation. The case is set for mediation on August 10, 2010. There is no assurance that this case will settle at the mediation. If settled at mediation, the amounts paid by the Company may be material.

The Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010 and its annual report on Form 10-K for the fiscal year ended December 31, 2009 contained disclosures regarding a complaint filed in California Superior Court by Plaintiff Donald R. Green, on behalf of himself and a putative class of all temporary staffing employees in California, naming the Company and one of its wholly owned subsidiaries as Defendants. On June 29, 2010, the Company became aware that the plaintiff and sole putative class representative in this matter, Donald R. Green, died on or about October 29, 2009. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to vigorously defend against the litigation.

The Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010 and its annual report on Form 10-K for the fiscal year ended December 31, 2009 contained disclosures regarding a complaint filed against the Company by Plaintiff Eric Presser, on behalf of himself and a putative class of all allegedly similarly situated Staffing Managers in the state of Florida. On July 9, 2010, the Court approved a settlement agreement in an amount immaterial to the Company and dismissed the complaint. Accordingly, the Company will not make disclosures regarding this matter 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, 2009 and its quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010.

**ITEM 1A. Risk Factors**

The risk factor titled *The Company and certain subsidiaries are defendants in several class and representative action lawsuits alleging various wage and hour claims that could cause the Company to incur substantial liabilities*, disclosed in the Company's most recent annual report on Form 10-K for the fiscal year ended December 31, 2009, as updated by and restated in the Company's most recent quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2010, is updated and restated as follows to reflect the settlement and dismissal of the *Presser* litigation and the Company's determination that the *Tran* litigation matter is not currently a material pending legal proceeding, as set forth in part II, Item 1 of this Form 10-Q.

*The Company and certain subsidiaries are defendants in several lawsuits alleging various wage and hour claims that could cause the Company to incur substantial liabilities.* The Company and certain subsidiaries are defendants in several actual or asserted class and representative action lawsuits brought by or on behalf of the Company's current and former employees alleging violations of federal and state law with respect to certain wage and hour matters. All but one of such lawsuits allege, among other things, the misclassification of certain employees as exempt employees under applicable law and other related wage and hour violations and seek an unspecified amount for unpaid overtime compensation, statutory penalties, and other damages, as well as attorneys' fees. One lawsuit alleges, among other things, that temporary employees in California were improperly denied expense reimbursement and wages for time purportedly spent preparing for, traveling to, and attending interviews, and seeks compensation for such expenses and wages, penalties and injunctive relief, as well as attorneys' fees. It is not possible to predict the outcome of these lawsuits. However, these lawsuits may consume substantial amounts of the Company's financial and managerial resources and might result in adverse publicity, regardless of the ultimate outcome of the lawsuits. In addition, the Company and its subsidiaries may become subject to similar lawsuits in the same or other jurisdictions. An unfavorable outcome with respect to these lawsuits and any future lawsuits could, individually or in the aggregate, cause the Company to incur substantial liabilities that may have a material adverse effect upon the Company's business, financial condition or results of operations. In addition, an unfavorable outcome in one or more of these cases could cause the Company to change its incentive compensation plans for its employees, which could have a material adverse effect upon the Company's business.

There have not been any material changes with regard to the other risk factors disclosed in such Form 10-K and such Form 10-Q.

**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 (c)
April 1, 2010 to April 30, 2010	300,917(a)	\$ 27.28	300,000	4,771,114
May 1, 2010 to May 31, 2010	1,986,268	\$ 26.59	1,986,268	2,784,846
June 1, 2010 to June 30, 2010	296,059(b)	\$ 23.10	200,000	2,584,846
Total April 1, 2010 to June 30, 2010	2,583,244		2,486,268	

- (a) Includes 917 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 96,059 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) 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. Since plan inception, a total of 78,000,000 shares have been authorized for repurchase of which, 75,415,154 shares have been repurchased as of June 30, 2010.

**ITEM 3. Defaults Upon Senior Securities**

None.

**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: July 30, 2010