

HALF ROBERT INTERNATIONAL INC /DE/
Form 10-Q
November 01, 2013

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 SEPTEMBER 30, 2013

OR

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

FOR THE TRANSITION PERIOD FROM to .

Commission File Number 1-10427

ROBERT HALF INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware
(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 September 30, 2013:

138,596,928 shares of \$.001 par value Common Stock

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

(in thousands, except share amounts)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$ 279,747	\$ 287,635
Accounts receivable, less allowances of \$27,358 and \$24,852	566,077	512,852
Current deferred income taxes	113,281	102,993
Other current assets	207,109	161,205
Total current assets	1,166,214	1,064,685
Goodwill	201,022	201,339
Other intangible assets, net	956	2,256
Property and equipment, net	102,801	107,680
Other assets	3,711	5,311
Total assets	\$ 1,474,704	\$ 1,381,271
LIABILITIES		
Accounts payable and accrued expenses	\$ 144,060	\$ 139,879
Accrued payroll costs and retirement obligations	397,926	361,641
Income taxes payable	9,817	
Current portion of notes payable and other indebtedness	125	117
Total current liabilities	551,928	501,637
Notes payable and other indebtedness, less current portion	1,333	1,428
Other liabilities	22,659	36,195
Total liabilities	575,920	539,260
Commitments and Contingencies (Note G)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.001 par value authorized 5,000,000 shares; issued and outstanding zero shares		
Common stock, \$.001 par value authorized 260,000,000 shares; issued and outstanding 138,285,804 shares and 139,438,603 shares	138	139
Capital surplus	847,718	798,093
Accumulated other comprehensive income	39,293	43,779
Retained earnings	11,635	
Total stockholders' equity	898,784	842,011
Total liabilities and stockholders' equity	\$ 1,474,704	\$ 1,381,271

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net service revenues	\$ 1,075,119	\$ 1,033,173	\$ 3,162,031	\$ 3,077,000
Direct costs of services, consisting of payroll, payroll taxes, insurance costs and reimbursable expenses	637,641	617,924	1,882,155	1,844,365
Gross margin	437,478	415,249	1,279,876	1,232,635
Selling, general and administrative expenses	333,565	321,030	985,664	986,312
Amortization of intangible assets	433	100	1,300	187
Interest income, net	(233)	(348)	(773)	(867)
Income before income taxes	103,713	94,467	293,685	247,003
Provision for income taxes	37,355	36,807	108,375	95,680
Net income	\$ 66,358	\$ 57,660	\$ 185,310	\$ 151,323
Net income available to common stockholders diluted	\$ 66,358	\$ 57,383	\$ 185,307	\$ 150,551
Net income per share (Note J):				
Basic	\$.49	\$.42	\$ 1.36	\$ 1.09
Diluted	\$.48	\$.41	\$ 1.35	\$ 1.08
Shares:				
Basic	135,727	137,918	136,469	138,627
Diluted	137,241	139,141	137,759	139,735
Cash dividends declared per share	\$.16	\$.15	\$.48	\$.45

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
COMPREHENSIVE INCOME:				
Net income	\$ 66,358	\$ 57,660	\$ 185,310	\$ 151,323
Foreign currency translation adjustments, net of tax	6,775	4,212	(4,486)	1,832
Total comprehensive income	\$ 73,133	\$ 61,872	\$ 180,824	\$ 153,155

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are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2013	2012
COMMON STOCK - SHARES:		
Balance at beginning of period	139,439	142,086
Net issuances of restricted stock	959	1,264
Repurchases of common stock	(3,377)	(4,521)
Exercises of stock options	1,265	1,982
Balance at end of period	138,286	140,811
COMMON STOCK - PAR VALUE:		
Balance at beginning of period	\$ 139	\$ 142
Net issuances of restricted stock	1	1
Repurchases of common stock	(3)	(4)
Exercise of stock options	1	2
Balance at end of period	\$ 138	\$ 141
CAPITAL SURPLUS:		
Balance at beginning of period	\$ 798,093	\$ 759,476
Net issuances of restricted stock at par value	(1)	(1)
Repurchases of common stock - excess over par value		(7,715)
Cash dividends (\$.48 per share and \$.45 per share)	(12,256)	(42,614)
Stock-based compensation expense	28,559	30,891
Exercises of stock options - excess over par value	29,895	37,840
Tax impact of equity incentive plans	3,428	6,450
Balance at end of period	\$ 847,718	\$ 784,327
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Balance at beginning of period	\$ 43,779	\$ 40,887
Foreign currency translation adjustments, net of tax	(4,486)	1,832
Balance at end of period	\$ 39,293	\$ 42,719
RETAINED EARNINGS:		
Balance at beginning of period	\$	\$
Net income	185,310	151,323
Repurchases of common stock - excess over par value	(118,957)	(121,388)
Cash dividends (\$.48 per share and \$.45 per share)	(54,718)	(21,250)
Balance at end of period	\$ 11,635	\$ 8,685

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 185,310	\$ 151,323
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	1,300	187
Depreciation expense	34,995	36,323
Stock-based compensation expense restricted stock and stock units	28,559	30,891
Excess tax benefits from stock-based compensation	(1,564)	(3,104)
Deferred income taxes	(23,540)	(19,544)
Provision for doubtful accounts receivable	6,173	7,657
Changes in assets and liabilities:		
Increase in accounts receivable	(61,039)	(68,578)
Increase in accounts payable, accrued expenses, accrued payroll costs and retirement obligations	27,842	19,201
Increase in income taxes payable	11,015	37,019
Change in other assets, net of change in other liabilities	2,006	(121)
Net cash flows provided by operating activities	211,057	191,254
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired		(1,525)
Capital expenditures	(32,117)	(35,816)
Increase in trusts for employee benefits and retirement plans	(38,479)	(5,752)
Net cash flows used in investing activities	(70,596)	(43,093)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases of common stock	(106,782)	(117,468)
Cash dividends paid	(65,612)	(62,691)
Decrease in notes payable and other indebtedness	(4,430)	(76)
Excess tax benefits from stock-based compensation	1,564	3,104
Proceeds from exercises of stock options	29,895	37,843
Net cash flows used in financing activities	(145,365)	(139,288)
Effect of exchange rate changes on cash and cash equivalents	(2,984)	1,219
Net (decrease) increase in cash and cash equivalents	(7,888)	10,092
Cash and cash equivalents at beginning of period	287,635	279,336
Cash and cash equivalents at end of period	\$ 279,747	\$ 289,428

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Non-cash items:

Stock repurchases awaiting settlement	\$ 12,178	\$ 11,639
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The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2013

Note A Summary of Significant Accounting Policies

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

Basis of Presentation. The unaudited Condensed Consolidated Financial Statements (Financial Statements) of the Company are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and the rules of the Securities and Exchange Commission (SEC). The comparative year-end condensed consolidated statement of financial position data presented was derived from audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial position and results of operations for the periods presented have been included. These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2012, included in its annual report on Form 10-K. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for a full year.

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

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As of September 30, 2013, 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 and in the valuation of stock grants subject to market conditions.

Advertising Costs. The Company expenses all advertising costs as incurred. Advertising costs for the three and nine months ended September 30, 2013 and 2012, are reflected in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Advertising costs	\$ 9,522	\$ 10,522	\$ 29,103	\$ 31,748

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2013

Note A Summary of Significant Accounting Policies (continued)

Internal-use Software. The Company capitalizes direct costs incurred in the development of internal-use software. Amounts capitalized are reported as a component of computer software within property and equipment. Internal-use software development costs capitalized for the three and nine months ended September 30, 2013 and 2012 are reflected in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Internal-use software development costs	\$ 3,913	\$ 4,377	\$ 7,980	\$ 14,058

Note B New Accounting Pronouncements

Income Taxes. In September 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance in regards to the presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendment states that an unrecognized tax benefit or a portion of the unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This authoritative guidance is to be applied for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material impact on its Financial Statements.

Note C Other Current Assets

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

	September 30, 2013	December 31, 2012
Deposits in trusts for employee benefits and retirement plans	\$ 141,830	\$ 97,535
Other	65,279	63,670
	\$ 207,109	\$ 161,205

Deposits in trusts for employee benefits increased for the nine months ended September 30, 2013 due to changes in the Company's broad-based Deferred Salary Savings Plan (the Plan) whereby previously unfunded employee accrual accounts were funded so that employees could direct the investments in their accounts. The Company's executive officers do not participate in the Plan.

Note D Goodwill

The following table sets forth the activity in goodwill from December 31, 2012, through September 30, 2013 (in thousands):

	Goodwill
Balance as of December 31, 2012	\$ 201,339

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Acquisitions	13
Foreign currency translation adjustments	(330)
Balance as of September 30, 2013	\$ 201,022

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2013

Note E Property and Equipment, Net

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

	September 30, 2013	December 31, 2012
Computer hardware	\$ 138,709	\$ 132,331
Computer software	281,848	269,917
Furniture and equipment	110,130	114,623
Leasehold improvements	116,716	122,060
Other	11,358	12,884
Property and equipment, cost	658,761	651,815
Accumulated depreciation	(555,960)	(544,135)
Property and equipment, net	\$ 102,801	\$ 107,680

Note F Accrued Payroll Costs and Retirement Obligations

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

	September 30, 2013	December 31, 2012
Payroll and benefits	\$ 247,536	\$ 196,569
Employee retirement obligations	94,664	92,233
Workers compensation	31,245	28,595
Payroll taxes	24,481	44,244
	\$ 397,926	\$ 361,641

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

	September 30, 2013	December 31, 2012
Deferred compensation plan and other benefits related to the Company's Chief Executive Officer	\$ 75,512	\$ 74,155

Note G Commitments and Contingencies

On April 23, 2010, Plaintiffs David Opalinski and James McCabe, on behalf of themselves and a putative class of similarly situated Staffing Managers, filed a Complaint in the United States District Court for the District of New Jersey naming the Company and one of its subsidiaries as Defendants. The Complaint alleges that salaried Staffing Managers located throughout the U.S. have been misclassified as exempt from the Fair Labor Standards Act's overtime pay requirements. Plaintiffs seek an unspecified amount for unpaid overtime on behalf of themselves and the class they purport to represent. Plaintiffs also seek an unspecified amount for statutory penalties, attorneys' fees and other damages. On

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October 6, 2011, the Court granted the Company's motion to compel arbitration of the Plaintiffs' allegations. At this stage, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from these allegations and, accordingly, no amounts have been provided in the Company's Financial Statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the allegations.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2013

Note G Commitments and Contingencies (continued)

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

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

Note H Stockholders' Equity

Stock Repurchase Program. As of September 30, 2013, the Company is authorized to repurchase, from time to time, up to 8.6 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. The number and the cost of common stock shares repurchased during the nine months ended September 30, 2013 and 2012, are reflected in the following table (in thousands):

	Nine months ended September 30,	
	2013	2012
Common stock repurchased (in shares)	2,779	3,502
Common stock repurchased	\$ 97,594	\$ 98,990

Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. Repurchases of shares are funded with cash generated from operations. The number and the cost of employee stock plan repurchases made during the nine months ended September 30, 2013 and 2012, are reflected in the following table (in thousands):

	Nine months ended September 30,	
	2013	2012
Employee stock plan repurchased (in shares)	598	1,019
Employee stock plan repurchased	\$ 21,366	\$ 30,117

The repurchased shares are held in treasury and are presented as if constructively retired. Treasury stock is accounted for using the cost method. Repurchase activity for the nine months ended September 30, 2013 and 2012, is presented in the unaudited Condensed Consolidated Statements of Stockholders' Equity.

Cash Dividends. The Company's Board of Directors may at their discretion declare and pay dividends upon the shares of the Company's stock either out of the Company's retained earnings or capital surplus. The cash dividends declared during the nine months ended September 30, 2013 and 2012, are reflected in the following table:

	Nine months ended September 30,	
	2013	2012

Cash dividends declared per share	\$.48	\$.45
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ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2013

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 \$11.6 million in retained earnings as of September 30, 2013 and no retained earnings as of December 31, 2012.

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 three or four years. Shares offered under the plans are authorized but unissued shares or treasury shares.

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

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

The Company recognizes compensation expense equal to the grant-date fair value for all stock-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to performance conditions, in which case the Company recognizes compensation expense over the requisite service period of each separate vesting tranche. The Company determines the grant-date fair value of its restricted stock and stock unit awards using the fair market value on the grant date, unless the awards are subject to market conditions, in which case the Company utilizes a binomial-lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to determine the stock-based compensation expense.

During the first nine months of 2013, the Company granted performance shares to its executives in the form of restricted stock. The shares granted contain (1) a performance condition based on target net income per share, and (2) a market condition based on Total Shareholder Return (TSR). The TSR market condition measures the Company's performance against a peer group. Shares will be delivered at the end of the three year vesting and TSR performance period based on the Company's actual performance compared to the peer group. Actual shares earned will range from fifty percent (50%) to one hundred fifty percent (150%) of the target award after any adjustment made for the performance condition. The fair value of this award was determined using a Monte Carlo simulation.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2013

Note J Net Income Per Share

The calculation of net income per share for the three and nine months ended September 30, 2013 and 2012 is reflected in the following table (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic net income per share:				
Net income	\$ 66,358	\$ 57,660	\$ 185,310	\$ 151,323
Income allocated to participating securities basic		278	3	776
Net income available to common stockholders basic	\$ 66,358	\$ 57,382	\$ 185,307	\$ 150,547
Basic weighted average shares	135,727	137,918	136,469	138,627
Basic net income per share	\$.49	\$.42	\$ 1.36	\$ 1.09
Diluted net income per share:				
Net income	\$ 66,358	\$ 57,660	\$ 185,310	\$ 151,323
Income allocated to participating securities diluted		277	3	772
Net income available to common stockholders diluted	\$ 66,358	\$ 57,383	\$ 185,307	\$ 150,551
Basic weighted average shares	135,727	137,918	136,469	138,627
Dilutive effect of potential common shares	1,514	1,223	1,290	1,108
Diluted weighted average shares	137,241	139,141	137,759	139,735
Diluted net income per share	\$.48	\$.41	\$ 1.35	\$ 1.08

Potential common shares include the dilutive effect of stock options, unvested performance-based restricted stock, restricted stock which contains forfeitable rights to dividends, and stock units. The weighted average diluted common shares outstanding for the three and nine months ended September 30, 2013 and 2012, excludes the effect of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total number of anti-dilutive potential common shares	386	406	188	231

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

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2013

Note K Business Segments (continued)

permanent placement segment provides full-time personnel in the accounting, finance, administrative and office, and information technology fields. The risk consulting segment provides business and technology risk consulting and internal audit services.

The accounting policies of the segments are set forth in Note A – Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The Company evaluates performance based on income or loss from operations before net interest income, intangible amortization expense, and income taxes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net service revenues				
Temporary and consultant staffing	\$ 847,886	\$ 831,922	\$ 2,513,377	\$ 2,490,587
Permanent placement staffing	88,222	81,757	261,946	253,760
Risk consulting and internal audit services	139,011	119,494	386,708	332,653
	\$ 1,075,119	\$ 1,033,173	\$ 3,162,031	\$ 3,077,000
Operating income				
Temporary and consultant staffing	\$ 76,532	\$ 75,832	\$ 226,293	\$ 196,654
Permanent placement staffing	13,691	12,538	41,753	44,162
Risk consulting and internal audit services	13,690	5,849	26,166	5,507
	103,913	94,219	294,212	246,323
Amortization of intangible assets	433	100	1,300	187
Interest income, net	(233)	(348)	(773)	(867)
Income before income taxes	\$ 103,713	\$ 94,467	\$ 293,685	\$ 247,003

Note L Subsequent Events

On October 30, 2013, the Company announced the following:

Quarterly dividend per share	\$.16
Declaration date	October 30, 2013
Record date	November 25, 2013
Payment date	December 16, 2013

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 adversely affect the Company's profit margins or the demand for the Company's services; the possibility that the Company's computer and communications hardware and software systems could be damaged or their service interrupted; and the possibility that the Company may fail to maintain adequate financial and management controls and as a result suffer errors in its financial reporting. Additionally, with respect to Protiviti, other risks and uncertainties include the fact that future success will depend on its ability to retain employees and attract clients; there can be no assurance that there will be ongoing demand for Sarbanes-Oxley or other regulatory compliance services; failure to produce projected revenues could adversely affect financial results; and there is the possibility of involvement in litigation relating to prior or current transactions or activities. Because long-term contracts are not a significant part of the Company's business, future results cannot be reliably predicted by considering past trends or extrapolating past results.

Critical Accounting Policies and Estimates

The Company's most critical accounting policies and estimates are those that involve subjective decisions or assessments and are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Other than updates to estimates used in the Company's goodwill impairment assessment and in the valuation of stock grants subject to market conditions discussed below, there were no material changes to these critical accounting policies during the nine months ended September 30, 2013.

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, 2013, and determined that no adjustment to the carrying value of goodwill was required. There were no events or changes in circumstances during the nine months ended September 30, 2013 that caused the Company to perform an interim impairment assessment.

The Company follows FASB authoritative guidance utilizing a two-step approach for determining goodwill impairment. In the first step the Company determines the fair value of each reporting unit utilizing a present

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

The Company's reporting units are *Accountemps*, *Robert Half Finance & Accounting*, *OfficeTeam*, *Robert Half Technology*, *Robert Half Management Resources* and *Provititi*, which had goodwill balances at September 30, 2012, of \$127.4 million, \$26.6 million, \$0.0 million, \$7.2 million, \$0.0 million and \$39.8 million, respectively, totaling \$201.0 million. There were no changes to the Company's reporting units or to the allocations of goodwill by reporting unit during the nine months ended September 30, 2013.

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 through the date of the most recent assessment would continue for all reporting units through 2013, 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 2015 and beyond, used a 5% growth factor to calculate the terminal value at the end of ten years for each unit. This rate is comparable to the Company's most recent ten-year annual compound revenue growth rate. In its most recent calculation, the Company used a 10.5% discount rate, which is slightly higher than the 10.0% discount rate used for the Company's test during the second quarter of 2012. This increase in discount rate is attributable primarily to an increase in the risk free rate, partially offset by a decrease in the equity 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 70% 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 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.

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.

The Company recognizes compensation expense equal to the grant-date fair value for all stock-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to performance conditions, in which case the Company recognizes compensation expense over the requisite service period of each separate vesting tranche. The Company determines the grant-date fair value of its restricted stock and stock unit awards using the fair market value on the grant date, unless the awards are subject to market conditions, in which case the Company utilizes a binomial-lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to determine the stock-based compensation expense.

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

The Company has not granted any options to purchase common stock since 2006.

Recent Accounting Pronouncements

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

Results of Operations

Demand for the Company's temporary and permanent placement staffing services and risk consulting and internal audit services is largely dependent upon general economic and labor market conditions both domestically and abroad. Because of the inherent difficulty in predicting economic trends and the absence of material long-term contracts in any of our business units, future demand for the Company's services cannot be forecasted with certainty. We expect total Company results to continue to be impacted by general macroeconomic conditions in 2013.

The Company's temporary and permanent placement staffing services business has 346 offices in 42 states, the District of Columbia and 19 foreign countries, while Protiviti has 60 offices in 23 states and 12 foreign countries.

Non-GAAP Financial Measures

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

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

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

Three months ended September 30, 2013 and 2012

Revenues. The Company's revenues were \$1.08 billion for the three months ended September 30, 2013 compared to \$1.03 billion for the three months ended September 30, 2012. Revenues from foreign operations represented 24% of total revenues for the three months ended September 30, 2013, compared to 26% for the three months ended September 30, 2012. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. For the three months ended September 30, 2013, revenues for all three of the Company's reportable segments were up compared to the same period in 2012. Results were strongest domestically, with growth rates outside the United States impacted by weaker economies in several countries, most notably within Europe. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$848 million for the three months ended September 30, 2013, increasing by 1.9% compared to revenues of \$832 million for the three months ended September 30, 2012. On a same-day, constant-currency basis, temporary and consultant staffing services revenues increased 0.7% for the third quarter of 2013 compared to the third quarter of 2012. In the U.S., revenues in the third quarter of 2013 increased 4.5%, or 3.3% on a same-day basis, compared to the third quarter of 2012. For the Company's international operations, 2013 third quarter revenues decreased 5.9% and on a same-day, constant-currency basis decreased 7.2%, compared to the third quarter of 2012.

Permanent placement staffing revenues were \$88 million for the three months ended September 30, 2013, increasing by 7.9% compared to revenues of \$82 million for the three months ended September 30, 2012. On a same-day, constant-currency basis, permanent placement revenues increased 7.9% for the third quarter of 2013 compared to the third quarter of 2012. In the U.S., revenues for the third quarter of 2013 increased 13.8%, or 12.5% on a same-day basis, compared to the third quarter of 2012. For the Company's international operations, revenues for the third quarter of 2013 decreased 0.8% and on a same-day, constant-currency basis increased 1.0%, compared to the third quarter of 2012. Historically, demand for permanent placement services is more sensitive to economic and labor market conditions than demand for temporary and consulting staffing services and this is expected to continue.

A reconciliation of the non-GAAP year-over-year revenue growth rates to the as reported year-over-year revenue growth rates for the three months ended September 30, 2013, is presented in the following table:

	Global	United States	International
Temporary and consultant staffing			
As Reported	1.9%	4.5%	-5.9%
Billing Days Impact	-1.2%	-1.2%	-1.2%
Currency Impact	0.0%		-0.1%
Same Billing Days and Constant Currency	0.7%	3.3%	-7.2%
Permanent placement staffing			
As Reported	7.9%	13.8%	-0.8%
Billing Days Impact	-1.2%	-1.3%	-1.2%
Currency Impact	1.2%		3.0%
Same Billing Days and Constant Currency	7.9%	12.5%	1.0%

Risk consulting and internal audit services revenues were \$139 million for the three months ended September 30, 2013, increasing by 16.3% compared to revenues of \$119 million for the three months ended September 30, 2012. In the U.S., revenues in the third quarter of 2013 increased 22.1% compared to the third quarter of 2012. Contributing to the U.S. increase was strong demand for consulting solutions including regulatory risk and compliance as well as information technology application controls and security. The Company's risk consulting and internal audit services revenues from international operations decreased 3.8% compared to the third quarter of 2012.

Gross Margin. The Company's gross margin dollars were \$437 million for the three months ended September 30, 2013, increasing by 5.4% compared to \$415 million for the three months ended September 30, 2012. In the third quarter of 2013, gross margin dollars increased for all three of the Company's reportable segments compared to the third quarter of 2012. Gross margin as a percentage of revenues increased for the Company's temporary and consultant staffing services and risk consulting and internal audit services segments 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 \$307 million for the three months ended September 30, 2013, compared to \$301 million for the three months ended September 30, 2012. As a percentage of revenues, gross margin for temporary and consultant staffing services was 36.2% in the third quarter of both 2012 and 2013.

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 \$88 million for the three months ended September 30, 2013, compared to \$82 million for the three months ended September 30, 2012. Because reimbursable expenses for permanent placement staffing services are de minimis, gross margin dollars are substantially explained by 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 \$42 million for the three months ended September 30, 2013, increasing by 32% compared to \$32 million for the three months ended September 30, 2012. As a percentage of revenues, gross margin for risk consulting and internal audit services was 30.5% in the third quarter of 2013, up from 26.9% in the third quarter of 2012. The year-over-year margin increase expressed as a percentage of revenues is primarily due to an increase in staff utilization levels. Utilization is the relationship of the time spent on client engagements to the total time available for the Company's risk consulting and internal audit services staff.

Selling, General and Administrative Expenses. The Company's selling, general and administrative expenses were \$333 million for the three months ended September 30, 2013, up 3.9% from \$321 million for the three months ended September 30, 2012. As a percentage of revenues, the Company's selling, general and administrative expenses were 31.0% for the third quarter of 2013, down from 31.1% for the third quarter of 2012. Contributing factors related to each reportable segment are discussed below in further detail.

Selling, general and administrative expenses for the Company's temporary and consultant staffing services division were \$231 million for the three months ended September 30, 2013, up 2.1% from \$226 million for the three months ended September 30, 2012. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 27.2% in the third quarter of 2013, up from 27.1% in the third quarter of 2012.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$74 million for the three months ended September 30, 2013, increasing by 7.7% compared to \$69 million for the

three months ended September 30, 2012. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 84.4% in the third quarter of 2013, down from 84.6% in the third quarter of 2012. For the third quarter of 2013 compared to the third quarter of 2012, decreases in administrative compensation and fixed overhead, partially offset by an increase in field compensation, drove the overall decrease as a percentage of revenues.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$28 million for the three months ended September 30, 2013, increasing by 9.1% compared to \$26 million for the three months ended September 30, 2012. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 20.6% in the third quarter of 2013, down from 22.0% in the third quarter of 2012. For the third quarter of 2013 compared to the third quarter of 2012, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to a decrease in fixed overhead accompanied with higher operating leverage obtained by higher revenues.

Operating Income. The Company's total operating income was \$104 million, or 9.7% of revenues, for the three months ended September 30, 2013, increasing by 10.3% from \$94 million, or 9.1% of revenues, for the three months ended September 30, 2012. For the Company's temporary and consultant staffing services division, operating income was \$76 million, or 9.0% of applicable revenues, largely unchanged from \$76 million, or 9.1% of applicable revenues, in the third quarter of 2012. For the Company's permanent placement staffing division, operating income was \$14 million, or 15.5% of applicable revenues, up from an operating income of \$12 million, or 15.3% of applicable revenues, in the third quarter of 2012. For the Company's risk consulting and internal audit services division, operating income was \$14 million, or 9.8% of applicable revenues, up from an operating income of \$6 million, or 4.9% of applicable revenues, in the third quarter of 2012.

Provision for income taxes. The provision for income taxes was 36% and 39%, as a percentage of income before income taxes, for the three months ended September 30, 2013 and 2012, respectively. The lower provision for the three months ended September 30, 2013 was primarily due to non-U.S. legal entity restructuring and improving results in certain non-U.S. jurisdictions that allowed us to record tax benefits that had been limited in the past.

Nine months ended September 30, 2013 and 2012

Revenues. The Company's revenues were \$3.16 billion for the nine months ended September 30, 2013, increasing by 3% compared to \$3.08 billion for the nine months ended September 30, 2012. Revenues from foreign operations represented 24% and 27% of total revenues for the nine months ended September 30, 2013 and 2012, respectively. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing and risk consulting and internal audit services. In the first three quarters of 2013, revenues for all three of the Company's reportable segments were up compared to the first three quarters of 2012. Results were strongest domestically, with growth rates outside the United States impacted by weaker economies in several countries, most notably within Europe. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$2.51 billion for the nine months ended September 30, 2013, increasing by 0.9% compared to revenues of \$2.49 billion for the nine months ended September 30, 2012. On a same day, constant-currency basis, temporary and consultant staffing services revenues increased 1.2% for the first three quarters of 2013 compared to the first three quarters of 2012. In the U.S., revenues in the first three quarters of 2013 increased 3.8%, or 4.0% on a same-day basis, compared to the first three quarters of 2012. For the Company's international operations, revenues in the first three quarters of 2013 decreased 7.5%, or 7.2% on a same-day, constant-currency basis, compared to the first three quarters of 2012.

Permanent placement revenues were \$262 million for the nine months ended September 30, 2013, increasing by 3.2% compared to revenues of \$254 million for the nine months ended September 30, 2012. On a

same-day, constant-currency basis, permanent placement revenues increased 4.3% for the first three quarters of 2013 compared to the first three quarters of 2012. In the U.S., revenues in the first three quarters of 2013 increased 12.9%, or 13.2% on a same-day basis, compared to the first three quarters of 2012. For the Company's international operations, revenues in the first three quarters of 2013 decreased 9.8%, or 7.6% on a same day, constant-currency basis, compared to the first three quarters of 2012. Historically, demand for permanent placement services is even more sensitive to economic and labor market conditions than demand for temporary and consulting staffing services and this is expected to continue.

A reconciliation of the Non-GAAP year-over-year revenue growth rates to the As Reported year-over-year revenue growth rates for the nine months ended September 30, 2013, is presented in the following table:

	Global	United States	International
Temporary and consultant staffing			
As Reported	0.9%	3.8%	-7.5%
Billing Days Impact	0.3%	0.2%	0.2%
Currency Impact	0.0%		0.1%
Same Billing Days and Constant Currency	1.2%	4.0%	-7.2%
Permanent placement staffing			
As Reported	3.2%	12.9%	-9.8%
Billing Days Impact	0.3%	0.3%	0.2%
Currency Impact	0.8%		2.0%
Same Billing Days and Constant Currency	4.3%	13.2%	-7.6%

Risk consulting and internal audit services revenues were \$387 million for the nine months ended September 30, 2013, increasing by 16.2% compared to revenues of \$333 million for the nine months ended September 30, 2012. Contributing to the increase was higher demand in the U.S. In the U.S., revenues in the first three quarters of 2013 increased 20.8% compared to the first three quarters of 2012. For the Company's international operations, revenues in the first three quarters of 2013 increased 1.5% compared to the first three quarters of 2012.

Gross Margin. The Company's gross margin dollars were \$1.28 billion for the nine months ended September 30, 2013, up from \$1.23 billion for the nine months ended September 30, 2012. For the first three quarters of 2013 compared to the first three quarters of 2012, gross margin dollars increased for the Company's temporary and consultant staffing services, permanent placement staffing and risk consulting and internal audit services. Gross margin as a percentage of revenues increased for the Company's temporary and consultant staffing services division and 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 \$908 million for the nine months ended September 30, 2013, increasing by 1.6% compared to \$894 million for the nine months ended September 30, 2012. As a percentage of revenues, gross margin for temporary and consultant staffing services was 36.1% in the first three quarters of 2013, up from 35.9% in the first three quarters of 2012. The year over year gross margin improvement was driven by a decrease in fringe costs and higher pay/bill spreads. Pay/bill spreads represent the differential between wages paid to temporary employees and amounts billed to clients.

Gross margin dollars from permanent placement staffing services represent revenues less reimbursable expenses. Gross margin dollars for the Company's permanent placement staffing division were \$262 million for the

nine months ended September 30, 2013, increasing by 3.2% compared to \$254 million for the nine months ended September 30, 2012. 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 \$110 million for the nine months ended September 30, 2013, increasing by 29.1% compared to \$85 million for the nine months ended September 30, 2012. As a percentage of revenues, gross margin for risk consulting and internal audit services was 28.4% in for the first three quarters of 2013, up from 25.5% in the first three quarters of 2012. The year-over-year margin increase expressed as a percentage of revenues is primarily due to an increase in staff utilization levels. Utilization is the relationship of the time spent on client engagements to the total time available for the Company's risk consulting and internal audit services staff.

Selling, General and Administrative Expenses. The Company's selling, general and administrative expenses were \$986 million for the nine months ended September 30, 2013, flat compared to the nine months ended September 30, 2012. As a percentage of revenues, the Company's selling, general and administrative expenses were 31.2% for the first three quarters of 2013, down from 32.1% for the first three quarters of 2012. 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 \$682 million for the nine months ended September 30, 2013, down 2.2% from \$697 million for the nine months ended September 30, 2012. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 27.1% in the first three quarters of 2013, down from 28.0% in the first three quarters of 2012. For the first three quarters of 2013 compared to the first three quarters of 2012, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to a \$19 million, or 0.8% of revenues, charge in 2012 related to a litigation settlement disclosed in the Company's July 5, 2012 Form 8-K.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$220 million for the nine months ended September 30, 2013, increasing by 5.1% compared to \$210 million for the nine months ended September 30, 2012. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 84.0% in the first three quarters of 2013, up from 82.6% in the first three quarters of 2012. For the first three quarters of 2013 compared to the first three quarters of 2012, an increase in field compensation drove the overall increase as a percentage of revenues.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$84 million for the nine months ended September 30, 2013, increasing by 5.2% compared to \$79 million for the nine months ended September 30, 2012. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 21.6% in the first three quarters of 2013, down from 23.9% in the first three quarters of 2012. For the first three quarters of 2013 compared to the first three quarters of 2012, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to higher operating leverage obtained by higher revenues.

Operating Income. The Company's total operating income was \$294 million, or 9.3% of revenues, for the nine months ended September 30, 2013, increasing by 19.4% from \$246 million, or 8.0% of revenues, for the nine months ended September 30, 2012. For the Company's temporary and consultant staffing services division, operating income was \$226 million, or 9.0% of applicable revenues, up from \$197 million, or 7.9% of applicable revenues, in the first three quarters of 2012. For the Company's permanent placement staffing division, operating income was \$42 million, or 15.9% of applicable revenues, down from operating income of \$44 million, or 17.4% of applicable revenues, in the first three quarters of 2012. For the Company's risk consulting and internal audit

services division, operating income was \$26 million, or 6.8% of applicable revenues, up from an operating income of \$5 million, or 1.7% of applicable revenues, in the first three quarters of 2012.

Provision for income taxes. The provision for income taxes was 37% and 39% for the nine months ended September 30, 2013 and 2012, respectively. The lower provision for the nine months ended September 30, 2013 was primarily due to non-U.S. legal entity restructuring and improving results in certain non-U.S. jurisdictions that allowed us to record tax benefits that had been limited in the past.

Liquidity and Capital Resources

The change in the Company's liquidity during the nine months ended September 30, 2013 and 2012 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 \$280 million and \$289 million at September 30, 2013 and 2012, respectively. Operating activities provided \$211 million during the nine months ended September 30, 2013, which was more than offset by \$71 million and \$145 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$191 million during the nine months ended September 30, 2012, which was partially offset by \$43 million and \$139 million of net cash used in investing activities and financing activities, respectively.

Operating activities Net cash provided by operating activities for the nine months ended September 30, 2013, was composed of net income of \$185 million, adjusted for non-cash items of \$46 million, and offset by changes in working capital of \$20 million. Net cash provided by operating activities for the nine months ended September 30, 2012, was comprised of net income of \$151 million, adjusted for non-cash items of \$52 million, and offset by changes in working capital of \$12 million.

Investing activities Net cash used in investing activities for the nine months ended September 30, 2013, was \$71 million. This was composed of capital expenditures of \$32 million and deposits to trusts for employee benefits and retirement plans of \$39 million. Net cash used in investing activities for the nine months ended September 30, 2012, was \$43 million. This was composed of capital expenditures of \$36 million and deposits to trusts for employee benefits and retirement plans of \$6 million and payment for acquisitions, net of cash acquired of \$1 million.

Financing activities Net cash used in financing activities for the nine months ended September 30, 2013, was \$145 million. This included repurchases of \$107 million in common stock, \$66 million in cash dividends to stockholders and \$4 million of payments of notes payable and other indebtedness, offset by proceeds of \$30 million from exercises of stock options, and \$2 million in excess tax benefits from stock-based compensation. Net cash used in financing activities for the nine months ended September 30, 2012, was \$139 million. This included repurchases of \$117 million in common stock and \$63 million in cash dividends to stockholders, offset by proceeds of \$38 million from exercises of stock options and \$3 million in excess tax benefits from stock-based compensation.

As of September 30, 2013 the Company is authorized to repurchase, from time to time, up to 8.6 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the nine months ended September 30, 2013 and 2012, the Company repurchased 2.8 million shares and 3.5 million shares of common stock on the open market for a total cost of \$98 million and \$99 million, respectively. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. During the nine months ended September 30, 2013 and 2012, such repurchases totaled 0.6 million shares, at a cost of \$21 million, and 1.0 million shares, at a cost of \$30 million, respectively. Repurchases of shares have been funded with cash generated from operations.

The Company's working capital at September 30, 2013, included \$280 million in cash and cash equivalents. The Company expects that internally generated cash will be sufficient to support the working capital needs of the Company, the Company's fixed payments, dividends, and other obligations on both a short-term and long-term basis.

On October 30, 2013, the Company announced a quarterly dividend of \$.16 per share to be paid to all shareholders of record as of November 25, 2013. The dividend will be paid on December 16, 2013.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

For the nine months ended September 30, 2013, approximately 24% of the Company's revenues were generated outside of the U.S. These operations transact business in their functional currency. As a result, fluctuations in the value of foreign currencies against the U.S. dollar, particularly the Canadian dollar, British pound, and Euro, have an impact on the Company's reported results. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Consequently, as the value of the U.S. dollar changes relative to the currencies of the Company's non-U.S. markets, the Company's reported results vary.

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

ITEM 4. Controls and Procedures

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

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

PART II OTHER INFORMATION**ITEM 1. Legal Proceedings**

There have been no material developments with regard to the legal proceedings previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012, and its quarterly reports on Form 10-Q for the fiscal quarters ended March 31, 2013 and June 30, 2013.

ITEM 1A. Risk Factors

There have not been any material changes with regard to the risk factors previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012.

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)
July 1, 2013 to July 31, 2013	20,308(a)	\$ 37.06		9,370,740
August 1, 2013 to August 31, 2013	409,366	\$ 36.84	409,366	8,961,374
September 1, 2013 to September 30, 2013	430,706(b)	\$ 38.88	343,996	8,617,378
Total July 1, 2013 to September 30, 2013	860,380		753,362	

- (a) Represents shares repurchased in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of applicable withholding taxes and/or exercise price.
- (b) Includes 86,710 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 transaction depending on market conditions. Since plan inception, a total of 98,000,000 shares have been authorized for repurchase of which 89,382,622 shares have been repurchased as of September 30, 2013.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosure

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 3.1 Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009.
- 3.2 By-Laws, incorporated by reference to Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.
- 101.1 Part I, Item 1 of this Form 10-Q formatted in XBRL.

SIGNATURES

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

ROBERT HALF INTERNATIONAL INC.

(Registrant)

/s/ M. KEITH WADDELL
M. Keith Waddell

Vice Chairman, President and Chief Financial Officer

(Principal Financial Officer and

duly authorized signatory)

Date: November 1, 2013