

HALF ROBERT INTERNATIONAL INC /DE/  
Form 10-Q  
November 02, 2015

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(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, 2015

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, 2015: 132,686,250 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, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$251,818	\$287,119
Accounts receivable, less allowances of \$32,286 and \$30,544	731,574	657,676
Current deferred income taxes	141,738	133,151
Other current assets	258,242	245,337
Total current assets	1,383,372	1,323,283
Goodwill	197,992	199,488
Property and equipment, net	129,229	121,754
Other assets	4,679	2,742
Total assets	\$1,715,272	\$1,647,267
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$134,991	\$175,107
Accrued payroll and benefit costs	508,915	448,115
Income taxes payable	20,113	—
Current portion of notes payable and other indebtedness	150	140
Total current liabilities	664,169	623,362
Notes payable and other indebtedness, less current portion	1,046	1,159
Other liabilities	43,581	42,888
Total liabilities	708,796	667,409
Commitments and Contingencies (Note F)		
<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 132,652,266 shares and 135,134,064 shares	133	135
Capital surplus	964,841	928,157
Accumulated other comprehensive (loss) income	(6,227	) 14,730
Retained earnings	47,729	36,836
Total stockholders' equity	1,006,476	979,858
Total liabilities and stockholders' equity	\$1,715,272	\$1,647,267

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,	
	2015	2014	2015	2014
Net service revenues	\$1,312,718	\$1,224,308	\$3,790,339	\$3,473,564
Direct costs of services, consisting of payroll, payroll taxes, benefit costs and reimbursable expenses	762,917	719,088	2,215,949	2,051,405
Gross margin	549,801	505,220	1,574,390	1,422,159
Selling, general and administrative expenses	390,735	366,967	1,138,075	1,058,144
Amortization of intangible assets	—	—	—	557
Interest income, net	(240)	(108)	(400)	(570)
Income before income taxes	159,306	138,361	436,715	364,028
Provision for income taxes	62,581	53,177	172,362	142,153
Net income	\$96,725	\$85,184	\$264,353	\$221,875
Net income per share:				
Basic	\$ .74	\$ .64	\$2.00	\$1.65
Diluted	\$ .73	\$ .63	\$1.98	\$1.63
Shares:				
Basic	131,285	134,054	132,280	134,690
Diluted	132,488	135,366	133,436	135,740
Cash dividends declared per share	\$ .20	\$ .18	\$ .60	\$ .54

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,	
	2015	2014	2015	2014
COMPREHENSIVE INCOME:				
Net income	\$96,725	\$85,184	\$264,353	\$221,875
Foreign currency translation adjustments, net of tax	(7,378 )	(15,281 )	(20,957 )	(12,995 )
Total comprehensive income	\$89,347	\$69,903	\$243,396	\$208,880

The accompanying Notes to Condensed Consolidated Financial Statements (Unaudited) are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)  
 (in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2015	2014
<b>COMMON STOCK—SHARES:</b>		
Balance at beginning of period	135,134	137,466
Net issuances of restricted stock	591	796
Repurchases of common stock	(3,127 )	(2,808 )
Exercises of stock options	54	469
Balance at end of period	132,652	135,923
<b>COMMON STOCK—PAR VALUE:</b>		
Balance at beginning of period	\$ 135	\$ 137
Net issuances of restricted stock	1	1
Repurchases of common stock	(3 )	(3 )
Exercises of stock options	—	1
Balance at end of period	\$ 133	\$ 136
<b>CAPITAL SURPLUS:</b>		
Balance at beginning of period	\$928,157	\$868,120
Net issuances of restricted stock at par value	(1 )	(1 )
Stock-based compensation expense	30,540	29,960
Exercises of stock options—excess over par value	1,511	12,686
Tax impact of equity incentive plans	4,634	2,213
Balance at end of period	\$964,841	\$912,978
<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:</b>		
Balance at beginning of period	\$14,730	\$38,071
Foreign currency translation adjustments, net of tax	(20,957 )	(12,995 )
Balance at end of period	\$(6,227 )	\$25,076
<b>RETAINED EARNINGS:</b>		
Balance at beginning of period	\$36,836	\$13,315
Net income	264,353	221,875
Repurchases of common stock—excess over par value	(172,736 )	(126,828 )
Cash dividends (\$.60 per share and \$.54 per share)	(80,724 )	(73,969 )
Balance at end of period	\$47,729	\$34,393

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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$264,353	\$221,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	—	557
Depreciation expense	39,487	36,170
Stock-based compensation expense—restricted stock and stock units	30,540	29,960
Excess tax benefits from stock-based compensation	(4,645 )	(1,644 )
Deferred income taxes	(6,912 )	(11,167 )
Provision for doubtful accounts	7,096	6,730
Changes in assets and liabilities:		
Increase in accounts receivable	(96,505 )	(123,259 )
Increase in accounts payable, accrued expenses, accrued payroll and benefit costs	63,149	72,137
Increase in income taxes payable	34,854	36,991
Change in other assets, net of change in other liabilities	(11,176 )	(10,530 )
Net cash flows provided by operating activities	320,241	257,820
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(48,276 )	(36,207 )
Payments to trusts for employee deferred compensation plans	(19,578 )	(18,220 )
Net cash flows used in investing activities	(67,854 )	(54,427 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(201,209 )	(124,679 )
Cash dividends paid	(80,169 )	(72,752 )
Payments for notes payable and other indebtedness	(104 )	(95 )
Excess tax benefits from stock-based compensation	4,645	1,644
Proceeds from exercises of stock options	1,511	12,686
Net cash flows used in financing activities	(275,326 )	(183,196 )
Effect of exchange rate changes on cash and cash equivalents	(12,362 )	(5,085 )
Net (decrease) increase in cash and cash equivalents	(35,301 )	15,112
Cash and cash equivalents at beginning of period	287,119	275,764
Cash and cash equivalents at end of period	\$251,818	\$290,876
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Non-cash items:		
Stock repurchases awaiting settlement	\$1,682	\$2,152

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, 2015

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 senior-level project professionals in the fields of accounting and finance. OfficeTeam specializes in highly skilled temporary administrative support professionals. Robert Half Technology provides project and full-time technology professionals. Robert Half Legal provides temporary, project, and full-time staffing of lawyers, paralegals and legal support personnel. The Creative Group provides interactive, design, marketing, advertising and public relations professionals. Protiviti is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, 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, 2014, 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, 2015, 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, 2015 and 2014, are reflected in the following table (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Advertising costs	\$11,618	\$11,251	\$33,728	\$30,881

**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, 2015 and 2014, are reflected in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Internal-use software development costs	\$7,474	\$7,010	\$24,349	\$17,846



ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 September 30, 2015

Note B—New Accounting Pronouncements

**Revenue from Contracts with Customers.** In May 2014, the Financial Accounting Standard Board ("FASB") issued authoritative guidance that provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The new guidance requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB issued a decision to delay the effective date by one year. The new guidance is effective for annual and interim periods beginning after December 15, 2017. Public entities are not permitted to adopt the standard earlier than the original effective date (that is, no earlier than 2017 for calendar year-end entities). The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the impact of adoption of this guidance on its Financial Statements.

**Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.** In April 2015, the FASB issued authoritative guidance designed to assist customers in their determination of whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. This guidance is effective for annual and interim periods beginning after December 15, 2015. The Company does not expect the adoption of this guidance to have a material impact to its Financial Statements.

**Business Combinations.** In September 2015, the FASB issued authoritative guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that an acquirer record in the same period's financial statements the effects of the cumulative impact of adjustments including the impact on prior periods. The prior period impact of the adjustment should be presented separately on the face of the income statement or disclosed in the notes. The new guidance is effective for annual and interim periods beginning after December 15, 2015 for public business entities. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not expect the adoption of this guidance to have a material impact to its Financial Statements.

Note C—Other Current Assets

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

	September 30, 2015	December 31, 2014
Deposits in trusts for employee deferred compensation plans	\$ 188,646	\$ 172,237
Other	69,596	73,100
Other current assets	\$ 258,242	\$ 245,337

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 September 30, 2015

Note D—Property and Equipment, Net

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

	September 30, 2015	December 31, 2014
Computer hardware	\$ 155,293	\$ 159,309
Computer software	335,710	312,968
Furniture and equipment	104,665	105,262
Leasehold improvements	112,990	113,782
Other	9,300	9,045
Property and equipment, cost	717,958	700,366
Accumulated depreciation	(588,729 )	(578,612 )
Property and equipment, net	\$ 129,229	\$ 121,754

Note E—Accrued Payroll and Benefit Costs

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

	September 30, 2015	December 31, 2014
Payroll and benefits	\$261,779	\$213,962
Employee deferred compensation plans	194,364	181,709
Workers' compensation	28,521	26,127
Payroll taxes	24,251	26,317
Accrued payroll and benefit costs	\$508,915	\$448,115

Included in employee deferred compensation plans is the following (in thousands):

	September 30, 2015	December 31, 2014
Deferred compensation plan and other benefits related to the Company's Chief Executive Officer	\$80,809	\$79,060

Note F—Commitments and Contingencies

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

On March 13, 2014, Plaintiff Leonor Rodriguez, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, filed a complaint against the Company in the Superior Court of California, San Diego County. The complaint alleges that a putative class of current and former employees of the Company working in California since March 13, 2011 were denied compensation for the time they spent interviewing with clients of the Company as well as performing activities related to the interview process. Rodriguez seeks recovery on her own behalf and on behalf of the putative class in an unspecified amount for this allegedly unpaid compensation. Rodriguez

also seeks recovery of an unspecified amount for the alleged failure of the Company to provide her and the putative class with accurate wage statements. Rodriguez also seeks an

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

September 30, 2015

## Note F— Commitments and Contingencies (continued)

unspecified amount of other damages, attorneys' fees, and statutory penalties, including but not limited to statutory penalties on behalf of herself and other allegedly "aggrieved employees" as defined by California's Labor Code Private Attorney General Act ("PAGA"). On October 10, 2014, the Court granted a motion by the Company to compel all of Rodriguez's claims, except the PAGA claim, to individual arbitration. 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 continue to vigorously defend against the litigation.

On March 23, 2015, Plaintiff Jessica Gentry, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, filed a complaint against the Company in the Superior Court of California, San Francisco County, which was subsequently amended on October 23, 2015. The complaint, which was filed by the same plaintiffs' law firm that brought the Rodriguez matter described above, alleges claims similar to those alleged in Rodriguez.

Specifically, the complaint alleges that a putative class of current and former employees of the Company working in California since March 13, 2010 were denied compensation for the time they spent interviewing "for temporary and permanent employment opportunities" as well as performing activities related to the interview process. Gentry seeks recovery on her own behalf and on behalf of the putative class in an unspecified amount for this allegedly unpaid compensation. Gentry also seeks recovery of an unspecified amount for the alleged failure of the Company to provide her and the putative class with accurate wage statements. Gentry also seeks an unspecified amount of other damages, attorneys' fees, and statutory penalties, including penalties for allegedly not paying all wages due upon separation to former employees and statutory penalties on behalf of herself and other allegedly "aggrieved employees" as defined by California's Labor Code Private Attorney General Act. 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 continue 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 G—Stockholders' Equity

Stock Repurchase Program. As of September 30, 2015, the Company is authorized to repurchase, from time to time, up to 1.8 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, 2015 and 2014, are reflected in the following table (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Common stock repurchased (in shares)	2,932	2,543
Common stock repurchased	\$ 161,073	\$ 115,694

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. The number and the cost of employee stock plan repurchases made during the nine months ended September 30, 2015 and 2014, are reflected in the following table (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Employee stock plan repurchased (in shares)	195	265
Employee stock plan repurchased	\$11,666	\$11,137

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 September 30, 2015

Note G—Stockholders' Equity (continued)

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, 2015 and 2014, is presented in the unaudited Condensed Consolidated Statements of Stockholders' Equity.

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.

Note H—Net Income Per Share

The calculation of net income per share for the three and nine months ended September 30, 2015 and 2014 is reflected in the following table (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$96,725	\$85,184	\$264,353	\$221,875
Basic:				
Weighted average shares	131,285	134,054	132,280	134,690
Diluted:				
Weighted average shares	131,285	134,054	132,280	134,690
Dilutive effect of potential common shares	1,203	1,312	1,156	1,050
Diluted weighted average shares	132,488	135,366	133,436	135,740
Net income per share:				
Basic	\$.74	\$.64	\$2.00	\$1.65
Diluted	\$.73	\$.63	\$1.98	\$1.63

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, 2015 and 2014, excludes the effect of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total number of anti-dilutive potential common shares	247	—	168	1

Note I—Business Segments

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

The accounting policies of the segments are set forth in Note A—“Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company evaluates performance based on income from operations before net interest income, intangible amortization expense, and income taxes.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
September 30, 2015  
Note I—Business Segments (continued)

The following table provides a reconciliation of revenue and operating income by reportable segment to consolidated results for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net service revenues				
Temporary and consultant staffing	\$999,822	\$954,225	\$2,922,942	\$2,722,833
Permanent placement staffing	110,748	102,345	319,744	297,797
Risk consulting and internal audit services	202,148	167,738	547,653	452,934
	\$1,312,718	\$1,224,308	\$3,790,339	\$3,473,564
Operating income				
Temporary and consultant staffing	\$102,991	\$97,660	\$300,404	\$263,901
Permanent placement staffing	24,377	21,380	67,460	61,103
Risk consulting and internal audit services	31,698	19,213	68,451	39,011
	159,066	138,253	436,315	364,015
Amortization of intangible assets	—	—	—	557
Interest income, net	(240 )	(108 )	(400 )	(570 )
Income before income taxes	\$159,306	\$138,361	\$436,715	\$364,028

Note J—Subsequent Events

On October 29, 2015, the Company authorized the repurchase, from time to time, of up to an additional 10 million shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. The authorization is in addition to the 1.8 million shares remaining under the existing repurchase program. There is no guarantee as to whether, when, or how many shares the Company will repurchase, and the Company may discontinue the repurchase program at any time.

On October 29, 2015, the Company announced the following:

Quarterly dividend per share	\$ .20
Declaration date	October 29, 2015
Record date	November 25, 2015
Payment date	December 15, 2015



## 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 by 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 Securities and Exchange Commission ("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.

### Executive Overview

Demand for the Company's temporary and permanent staffing services and risk consulting and internal audit services is largely dependent upon general economic and labor trends both domestic and abroad. Correspondingly, financial results for the first three quarters of 2015 were positively impacted by improving global economic conditions, largely driven by improvements in the United States with more modest growth in the non-U.S. markets we serve. During the first three quarters of 2015, net service revenues grew to \$3.79 billion, an increase of 9% from the prior year. Net income increased 19% to \$264 million and diluted net income per share increased 21% to \$1.98 for the nine months ended September 30, 2015. Revenues in the third quarter totaled \$1.31 billion, led by strong results from Protiviti, Robert Half Technology and our permanent placement operations. Protiviti revenues increased 23% on a same-day, constant-currency basis compared to the third quarter of last year. Net income was \$97 million, or \$.73 per share, up 14% and 16%, respectively, from the third quarter of 2014.

We believe that the Company is well positioned to benefit from the current macro environment. The United States economic situation during the first three quarters of 2015 was generally favorable for the Company as real gross domestic product (GDP) grew 0.6%, 3.9% and 1.5% for the first, second and third quarter, respectively, while the unemployment rate declined from 5.6% in December 2014 to 5.1% at the end of the third quarter of 2015. The third

quarter's unemployment rate was the lowest in seven years. Over the past several years, the increase in temporary workers as a percentage of U.S. employment suggests that more employers are embracing flexible staffing as an important part of managing their labor force. Although some of the trends that have recently benefited the Company's U.S. business are also present internationally, the gains in many international markets have been more modest. We monitor various economic indicators and business trends in all of the countries in which we operate to anticipate demand for the Company's services. We evaluate these trends to determine the appropriate level of investment, including personnel, which will best position the Company for success in the current and future global macro environment. The Company's investments in headcount are typically structured to proactively support and align with expected revenue growth trends. As such, during the first three quarters of 2015, we added headcount in all of the Company's lines of business.

We have limited visibility into future revenues not only due to the dependence on macroeconomic conditions noted above, but also because of the relatively short duration of the Company's client engagements. Accordingly, we typically assess headcount and other investments on at least a quarterly basis. That said, based on current trends and conditions, we do expect targeted headcount increases to continue through the fourth quarter, especially in the technology division within our temporary and consultant staffing segment and within our permanent placement staffing segment.

Capital expenditures for the nine months ended September 30, 2015 totaled \$48 million, approximately 70% of which represented investments in software initiatives and technology infrastructure, both of which are important to the Company's future growth opportunities. Capital expenditures also included amounts spent on tenant improvements and furniture and equipment in our leased offices. Major software initiatives include upgrades to enterprise resource planning applications and the continued implementation of a global, cloud-based customer relationship management application. Infrastructure and computer hardware initiatives in the first three quarters of 2015 have focused on delivering mobile technology to our professional staff, upgrading data networks, and enhancing video capabilities and telecommunication systems. Our investments in these initiatives are expected to continue throughout 2015. We currently forecast that 2015 capital expenditures will range from \$70 million to \$80 million.

#### 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, 2014. There were no material changes to the Company's accounting policies for the nine months ended September 30, 2015, and other than updates to estimates used in the Company's goodwill impairment assessment discussed below, there were no material changes to critical accounting estimates during the nine months ended September 30, 2015.

**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, 2015, and determined that no adjustment to the carrying value of goodwill was required. There were no events or changes in circumstances since the annual goodwill impairment assessment 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, if any, as of the assessment date.

The Company's reporting units are Accountemps, Robert Half Finance & Accounting, OfficeTeam, Robert Half Technology, Robert Half Management Resources and Protiviti, which had goodwill balances at September 30, 2015, of \$126.3 million, \$26.3 million, \$0.0 million, \$7.1 million, \$0.0 million and \$38.3 million, respectively, totaling \$198.0 million. There were no changes to the Company's reporting units or to the allocations of goodwill by reporting unit for the nine months ended September 30, 2015.

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 2015, 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 2017 and beyond, used a 5% growth factor. This rate is comparable to the Company's most recent ten-year annual compound revenue growth rate. The model used to calculate fair value goes out a total of 10 years with a terminal value calculation at the end of the 10 year period. In its most recent calculation, the Company used a 10.0% discount rate, which is slightly lower than the 10.2% discount rate used for the Company's test during the second quarter of 2014. This decrease in discount rate is attributable to decreases in the risk free rate and the equity market risk premium, offset by a slight increase in beta.

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 74% 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.

#### 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. All segments of the business contributed to a solid quarter for the Company. 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.

The Company's temporary and permanent placement staffing services business has 332 offices in 42 states, the District of Columbia and 17 foreign countries, while Protiviti has 56 offices in 23 states and 11 foreign countries.

#### Non-GAAP Financial Measures

The financial results of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the SEC. 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 reportable 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 then calculates a global, weighted-average number of billing days for each reporting period based upon input from all countries and all 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.

Refer to Item 3. "Quantitative and Qualitative Disclosures About Market Risk" for further discussion of the impact of foreign currency exchange rates on the Company's results of operations and financial condition.

Three months ended September 30, 2015 and 2014

Revenues. The Company's revenues were \$1.31 billion for the three months ended September 30, 2015, compared to \$1.22 billion for the three months ended September 30, 2014. Revenues from foreign operations represented 19.0% of total revenues for the three months ended September 30, 2015, compared to 22.8% for the three months ended September 30, 2014. 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, 2015 revenues for each of the Company's reportable segments were up compared to the same period in 2014. The Company's growth was broad-based and reflective of improving labor markets and higher global demand for its professional staffing services. Results were strongest domestically with demand also improving in several other countries, most notably within Europe. Risk consulting and internal audit services continued to post strong growth rates. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing services revenues were \$1 billion for the three months ended September 30, 2015, increasing by 4.8% compared to revenues of \$954 million for the three months ended September 30, 2014. Key drivers of temporary and consultant staffing services revenues include average hourly bill rates and the number of hours worked by the Company's temporary employees on client engagements. On a same-day, constant-currency basis, temporary and consultant staffing services revenues increased 8.3% for the third quarter of 2015 compared to the third quarter of 2014, due primarily to a 4.6% increase in average bill rates and inclusive of an increase in the number of hours worked by the Company's temporary employees. In the U.S., revenues in the third quarter of 2015 increased 9.9%, or 9.8% on a same-day basis, compared to the third quarter of 2014. For the Company's international operations, 2015 third quarter revenues decreased 12.8%, but on a same-day, constant-currency basis, increased 3.1%, compared to the third quarter of 2014.

Permanent placement staffing revenues were \$111 million for the three months ended September 30, 2015, increasing by 8.2% compared to revenues of \$102 million for the three months ended September 30, 2014. Key drivers of permanent placement staffing revenues consist of the number of candidate placements and average fees earned per placement. On a same-day, constant-currency basis, permanent placement revenues increased 13.6% for the third quarter of 2015 compared to the third quarter of 2014, driven primarily by an increase in the number of placements. In the U.S., revenues for the third quarter of 2015 increased 16.2%, or 16.1% on a same-day basis, compared to the third quarter of 2014. For the Company's international operations, revenues for the third quarter of 2015 decreased 7.3%, but on a same-day, constant-currency basis, increased 8.9%, compared to the third quarter of 2014. 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.

Risk consulting and internal audit services revenues were \$202 million for the three months ended September 30, 2015, increasing by 20.5% compared to revenues of \$168 million for the three months ended September 30, 2014. Key drivers of risk consulting and internal audit services revenues are the billable hours worked by consultants on client engagements and average hourly bill rates. On a same-day, constant-currency basis, risk consulting and internal audit services revenues increased 23.0% for the third quarter of 2015 compared to the third quarter of 2014, due primarily to an increase in billable hours worked. In the U.S., revenues in the third quarter of 2015 increased 24.6%, or 24.4% on a same-day basis, compared to the third quarter of 2014. Contributing to the U.S. increase was continued growth in services related to internal audit and financial advisory, risk and compliance, and information technology consulting. The Company's risk consulting and internal audit services revenues from international operations increased 1.2%, and on a same-day, constant-currency basis increased 16.4%, compared to the third quarter of 2014.





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, 2015, is presented in the following table:

	Global		United States		International	
Temporary and consultant staffing						
As Reported	4.8	%	9.9	%	-12.8	%
Billing Days Impact	-0.1	%	-0.1	%	-0.2	%
Currency Impact	3.6	%	—		16.1	%
Same Billing Days and Constant Currency	8.3	%	9.8	%	3.1	%
Permanent placement staffing						
As Reported	8.2	%	16.2	%	-7.3	%
Billing Days Impact	-0.2	%	-0.1	%	-0.1	%
Currency Impact	5.6	%	—		16.3	%
Same Billing Days and Constant Currency	13.6	%	16.1	%	8.9	%
Risk consulting and internal audit services						
As Reported	20.5	%	24.6	%	1.2	%
Billing Days Impact	-0.2	%	-0.2	%	-0.2	%
Currency Impact	2.7	%	—		15.4	%
Same Billing Days and Constant Currency	23.0	%	24.4	%	16.4	%

Gross Margin. The Company's gross margin dollars were \$550 million for the three months ended September 30, 2015, increasing by 8.8% compared to \$505 million for the three months ended September 30, 2014. In the third quarter of 2015, gross margin dollars increased for all three of the Company's reportable segments compared to the third quarter of 2014. 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 benefit costs for temporary employees, and reimbursable expenses. The key drivers of gross margin are: i) pay/bill spreads, which represent the differential between wages paid to temporary employees and amounts billed to clients; ii) fringe costs, which are primarily composed of payroll taxes and benefit costs for temporary and consultant staffing employees; and iii) conversion revenues, which are earned when a temporary position converts to a permanent position with the Company's client. Gross margin dollars for the Company's temporary and consultant staffing services division were \$373 million for the three months ended September 30, 2015, compared to \$352 million for the three months ended September 30, 2014. As a percentage of revenues, gross margin for temporary and consultant staffing services was 37.3% in the third quarter of 2015, up from 36.9% in the third quarter of 2014. This year-over-year improvement in gross margin percentage of 0.4% was primarily attributable to higher pay/bill spreads and lower fringe costs in the third quarter of 2015 compared to the third quarter of 2014.

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 \$111 million for the three months ended September 30, 2015, compared to \$102 million for the three months ended September 30, 2014. 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, benefit costs and reimbursable expenses. The primary drivers of risk consulting and internal audit services gross margin are: i) the relative composition of and number of professional staff and their respective pay and bill rates; and ii) staff utilization, which is the relationship of time spent on client engagements in proportion to the total time available for the Company's risk consulting and internal audit services staff. Gross margin dollars for the Company's risk consulting and internal audit division were \$66 million for the three months ended September 30, 2015, increasing by 30.0% compared to \$51 million for the

three months ended September 30, 2014. As a percentage of revenues, gross margin for risk consulting and internal audit services in the third quarter of 2015 was 32.9%, up from 30.5% in the third quarter of 2014. The improvement in the third quarter of 2015 compared to the third quarter of 2014 was due to a better alignment of the mix of professional staff relative to client demand and higher bill rates.

**Selling, General and Administrative Expenses.** The Company's selling, general and administrative expenses were \$391 million for the three months ended September 30, 2015, up 6.5% from \$367 million for the three months ended September 30, 2014. As a percentage of revenues, the Company's selling, general and administrative expenses were 29.8% for the third quarter of 2015, down from 30.0% for the third quarter of 2014. 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 \$270 million for the three months ended September 30, 2015, up 6.2% from \$254 million for the three months ended September 30, 2014. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 27.0% in the third quarter of 2015, up slightly from 26.6% in the third quarter of 2014.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$86 million for the three months ended September 30, 2015, increasing by 6.5% compared to \$81 million for the three months ended September 30, 2014. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 77.9% in the third quarter of 2015 and 79.1% in the third quarter of 2014. For the third quarter of 2015 compared to the third quarter of 2014, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to improved operating leverage achieved through higher revenues.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$35 million for the three months ended September 30, 2015, increasing by 8.9% compared to \$32 million for the three months ended September 30, 2014. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 17.2% in the third quarter of 2015, down from 19.0% in the third quarter of 2014. For the third quarter of 2015 compared to the third quarter of 2014, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to improved operating leverage achieved through higher revenues.

**Operating Income.** The Company's total operating income was \$159 million, or 12.1% of revenues, for the three months ended September 30, 2015, increasing by 15.1% from \$138 million, or 11.3% of revenues, for the three months ended September 30, 2014. For the Company's temporary and consultant staffing services division, operating income was \$103 million, or 10.3% of applicable revenues, up from \$98 million, or 10.2% of applicable revenues, in the third quarter of 2014. For the Company's permanent placement staffing division, operating income was \$24 million, or 22.0% of applicable revenues, up from an operating income of \$21 million, or 20.9% of applicable revenues, in the third quarter of 2014. For the Company's risk consulting and internal audit services division, operating income was \$32 million, or 15.7% of applicable revenues, up from an operating income of \$19 million, or 11.5% of applicable revenues, in the third quarter of 2014.

**Provision for income taxes.** The provision for income taxes was 39.3% and 38.4% for the three months ended September 30, 2015 and 2014, respectively. The higher tax rate is primarily due to fewer available foreign tax benefits during 2015.

Nine months ended September 30, 2015 and 2014

**Revenues.** The Company's revenues were \$3.79 billion for the nine months ended September 30, 2015, increasing by 9.1% compared to \$3.47 billion for the nine months ended September 30, 2014. Revenues from foreign operations represented 19.6% and 23.2% of total revenues for the nine months ended September 30, 2015 and 2014, 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 2015, revenues for all three of the Company's reportable segments were up compared to the first three quarters of 2014. Results were strongest domestically with demand also improving 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 \$2.92 billion for the nine months ended September 30, 2015, increasing 7.3% compared to revenues of \$2.72 billion for the nine months ended September 30, 2014. Key drivers of temporary and consultant staffing services revenues include average hourly bill rates and hours worked by the Company's temporary employees on client engagements. On a same-day, constant-currency basis, temporary and

consultant staffing services revenues increased 11.3% for the first three quarters of 2015 compared to the first three quarters of 2014, due primarily to an increase in temporary hours worked by the Company's temporary employees and inclusive of a 4.4% increase in average bill rates. In the U.S., revenues in the first three quarters of 2015 increased 12.3%, or 12.5% on a same-day basis, compared to the first three quarters of 2014. For the Company's international operations, revenues in the first three quarters of 2015 decreased 9.5%, but increased 7.0% on a same-day, constant-currency basis, compared to the first three quarters of 2014.

Permanent placement revenues were \$320 million for the nine months ended September 30, 2015, increasing by 7.4% compared to revenues of \$298 million for the nine months ended September 30, 2014. Key drivers of permanent placement staffing revenues consist of number of candidate placements and average fees earned per placement. On a same-day, constant-currency basis, permanent placement revenues increased 12.9% for the first three quarters of 2015 compared to the first three quarters of 2014. In the U.S., revenues in the first three quarters of 2015 increased 16.9%, or 17.1% on a same-day basis, compared to the first three quarters of 2014, driven primarily by an increase in number of placements. 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. For the Company's international operations, revenues in the first three quarters of 2015 decreased 9.7%, and increased 5.3% on a same-day, constant-currency basis, compared to the first three quarters of 2014.

Risk consulting and internal audit services revenues were \$548 million for the nine months ended September 30, 2015, increasing by 20.9% compared to revenues of \$453 million for the nine months ended September 30, 2014. Key drivers of risk consulting and internal audit services revenues are the billable hours worked by consultants on client engagements and average hourly bill rates. On a same-day, constant-currency basis, risk consulting and internal audit services revenues increased 24.2% for the first three quarters of 2015 compared to the first three quarters of 2014, due primarily to an increase in billable hours worked. Contributing to the increase was higher demand in the U.S. In the U.S., revenues in the first three quarters of 2015 increased 25.0%, or 25.4% on a same-day basis, compared to the first three quarters of 2014. For the Company's international operations, revenues in the first three quarters of 2015 increased 3.3%, or 19.3% on a same-day, constant-currency basis, compared to the first three quarters of 2014.

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, 2015, is presented in the following table:

	Global	United States	International		
Temporary and consultant staffing					
As Reported	7.3 %	12.3 %	-9.5 %		
Billing Days Impact	0.3 %	0.2 %	0.2 %		
Currency Impact	3.7 %	—	16.3 %		
Same Billing Days and Constant Currency	11.3 %	12.5 %	7.0 %		
Permanent placement staffing					
As Reported	7.4 %	16.9 %	-9.7 %		
Billing Days Impact	0.2 %	0.2 %	0.1 %		
Currency Impact	5.3 %	—	14.9 %		
Same Billing Days and Constant Currency	12.9 %	17.1 %	5.3 %		
Risk consulting and internal audit services					
As Reported	20.9 %	25.0 %	3.3 %		
Billing Days Impact	0.4 %	0.4 %	0.3 %		
Currency Impact	2.9 %	—	15.7 %		
Same Billing Days and Constant Currency	24.2 %	25.4 %	19.3 %		

Gross Margin. The Company's gross margin dollars were \$1.57 billion for the nine months ended September 30, 2015, up from \$1.42 billion for the nine months ended September 30, 2014. For the first three quarters of 2015 compared to the first three quarters of 2014, gross margin dollars increased for all three of the Company's reportable segments. Gross margin as a percentage of revenues increased for the Company's temporary and consultant staffing services division and 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. The key drivers of gross margin are: i) pay/bill spreads, which represent the differential

between wages paid to temporary employees and amounts billed to clients; ii) fringe costs, which are primarily composed of payroll taxes and benefit costs for

temporary and consultant staffing employees; and iii) conversion revenues, which are earned when a temporary position converts to a permanent position with the Company's client. Gross margin dollars for the Company's temporary and consultant staffing services division were \$1.09 billion for the nine months ended September 30, 2015, increasing by 9.4% compared to \$994 million for the nine months ended September 30, 2014. As a percentage of revenues, gross margin for temporary and consultant staffing services was 37.2% in the first three quarters of 2015, up from 36.5% in the first three quarters of 2014. This year-over-year improvement in gross margin percentage of 0.7% was primarily attributable to higher conversion fees, pay/bill spreads and lower fringe costs in the first three quarters of 2015 compared to the first three quarters of 2014.

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 \$319 million for the nine months ended September 30, 2015, increasing by 7.2% compared to \$297 million for the nine months ended September 30, 2014. 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. The primary drivers of risk consulting and internal audit services gross margin are: i) the relative composition of and number of professional staff and their respective pay and bill rates; and ii) staff utilization, which is the relationship of time spent on client engagements in proportion to the total time available for the Company's risk consulting and internal audit services staff. Gross margin dollars for the Company's risk consulting and internal audit division were \$168 million for the nine months ended September 30, 2015, increasing by 28.4% compared to \$131 million for the nine months ended September 30, 2014. As a percentage of revenues, gross margin for risk consulting and internal audit services was 30.6% in for the first three quarters of 2015, up from 28.9% in the first three quarters of 2014. The improvement in the first three quarters of 2015 compared to the first three quarters of 2014 was due to a better alignment of the mix of professional staff relative to client demand.

**Selling, General and Administrative Expenses.** The Company's selling, general and administrative expenses were \$1.14 billion for the nine months ended September 30, 2015, increasing by 7.6% compared to \$1.06 billion for the nine months ended September 30, 2014. As a percentage of revenues, the Company's selling, general and administrative expenses were 30.0% for the first three quarters of 2015, down from 30.5% for the first three quarters of 2014. 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 \$787 million for the nine months ended September 30, 2015, up 7.8% from \$730 million for the nine months ended September 30, 2014. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing services were 26.9% in the first three quarters of 2015, up from 26.8% in the first three quarters of 2014.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$252 million for the nine months ended September 30, 2015, increasing by 6.4% compared to \$236 million for the nine months ended September 30, 2014. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 78.7% in the first three quarters of 2015, down from 79.4% in the first three quarters of 2014.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$99 million for the nine months ended September 30, 2015, increasing by 8.3% compared to \$92 million for the nine months ended September 30, 2014. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 18.1% in the first three quarters of 2015, down from 20.3% in the first three quarters of 2014. For the first three quarters of 2015 compared to the first three quarters of 2014, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to higher operating leverage achieved through higher revenues.

**Operating Income.** The Company's total operating income was \$436 million, or 11.5% of revenues, for the nine months ended September 30, 2015, increasing by 19.9% from \$364 million, or 10.5% of revenues, for the nine months ended September 30, 2014. For the Company's temporary and consultant staffing services division, operating income

was \$300 million, or 10.3% of applicable revenues, up from \$264 million, or 9.7% of applicable revenues, in the first three quarters of 2014. For the Company's permanent placement staffing division, operating income was \$68 million, or 21.1% of applicable revenues, up from operating income of \$61 million, or 20.5% of applicable revenues, in the first three quarters of 2014. For the Company's risk consulting and internal audit services division, operating income was \$68 million, or 12.5% of applicable revenues, improving from \$39 million, or 8.6% of applicable revenues, in the first three quarters of 2014.



Provision for income taxes. The provision for income taxes was 39.5% and 39.1% for the nine months ended September 30, 2015 and 2014, respectively. The higher tax rate is primarily due to fewer available foreign tax benefits during 2015.

#### Liquidity and Capital Resources

The change in the Company's liquidity during the nine months ended September 30, 2015 and 2014 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 \$252 million and \$291 million at September 30, 2015 and 2014, respectively.

Operating activities provided \$320 million during the nine months ended September 30, 2015, which was offset by \$68 million and \$275 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$258 million during the nine months ended September 30, 2014, which was partially offset by \$54 million and \$183 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, 2015, was composed of net income of \$264 million, adjusted for non-cash items of \$66 million and changes in working capital of \$10 million. Net cash provided by operating activities for the nine months ended September 30, 2014, was comprised of net income of \$222 million, adjusted for non-cash items of \$61 million, and offset by changes in working capital of \$25 million.

Investing activities—Net cash used in investing activities for the nine months ended September 30, 2015, was \$68 million. This was composed of capital expenditures of \$48 million and deposits to trusts for employee deferred compensation plans of \$20 million. Net cash used in investing activities for the nine months ended September 30, 2014, was \$54 million. This was comprised of capital expenditures of \$36 million and deposits to trusts for employee benefits and retirement plans of \$18 million.

Financing activities—Net cash used in financing activities for the nine months ended September 30, 2015, was \$275 million. This primarily included repurchases of \$201 million in common stock and \$80 million in cash dividends to stockholders, offset by \$5 million in excess tax benefits from stock-based compensation and proceeds of \$2 million from exercises of stock options. Net cash used in financing activities for the nine months ended September 30, 2014, was \$183 million. This included repurchases of \$125 million in common stock and \$73 million in cash dividends to stockholders, offset by proceeds of \$13 million from exercises of stock options and \$2 million in excess tax benefits from stock-based compensation.

As of September 30, 2015, the Company is authorized to repurchase, from time to time, up to 1.8 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. On October 29, 2015, the Company authorized the repurchase, from time to time, of up to an additional 10 million 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, 2015 and 2014, the Company repurchased 2.9 million shares and 2.5 million shares of common stock on the open market for a total cost of \$161 million and \$116 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, 2015 and 2014, such repurchases totaled 0.2 million shares, at a cost of \$12 million, and 0.3 million shares, at a cost of \$11 million, respectively. Repurchases of shares have been funded with cash generated from operations.

The Company's working capital at September 30, 2015, included \$252 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 29, 2015, the Company announced a quarterly dividend of \$.20 per share to be paid to all shareholders of record as of November 25, 2015. The dividend will be paid on December 15, 2015.

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

Because a portion of the Company's net revenues are derived from its operations outside the U.S. and are denominated in local currencies, the Company is exposed to risks associated with foreign currency fluctuations. Changes in exchange rates impact the U.S. dollar amount of the Company's reported revenues, expenses, earnings, assets and

liabilities.

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For the nine months ended September 30, 2015, approximately 20% of the Company's revenues were generated outside of the United States. These operations transact business in their functional currency, which is the same as their local currency. As a result, fluctuations in the value of foreign currencies against the U.S. dollar, particularly the Canadian dollar, British pound, Euro, and Australian dollar, have an impact on the Company's reported results. Under GAAP, 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.

During the first nine months of 2015, the U.S. dollar fluctuated, but generally strengthened, against the primary currencies in which the Company conducts business. Currency exchange rates had the effect of decreasing reported net service revenues by \$129 million, or 3.7%, in the first three quarters of 2015 compared to prior year. The general strengthening of the U.S. dollar also affected the reported level of expenses incurred in our foreign operations.

Because substantially all our foreign operations generated revenues and incurred expenses within the same country and currency, the favorable effect of lower reported operating expenses largely offset the decline in reported revenues. Reported net income was \$5 million, or 2.4%, lower in first three quarters of 2015 compared to prior year due to the effect of currency exchange rates.

For the month ended October 31, 2015, the U.S. dollar has strengthened against the Euro, but weakened against the British Pound, Canadian Dollar, and Australian dollar since September 30, 2015. If currency exchange rates were to remain at October 2015 levels throughout the fourth quarter of 2015, the Company's 2015 full-year reported revenues would be impacted unfavorably, mostly offset by a favorable impact to operating expenses. Thus, the impact to reported net income would likely be immaterial.

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. Although currency fluctuations impact the Company's reported results and shareholders' equity, such fluctuations generally do not affect cash flow or result in actual economic gains or losses. The Company generally has few cross-border transfers of funds, except for transfers to the U.S. for payment of intercompany loans, working capital loans made between the U.S. and the Company's foreign subsidiaries, and dividends from the Company's foreign subsidiaries.

#### 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

The Company's Form 10-Q for the fiscal quarter ended March 31, 2015 contained disclosure regarding a complaint filed in the Superior Court of California, San Francisco County, by Plaintiff Jessica Gentry. On October 23, 2015, the complaint was amended to add a claim for recovery of an unspecified amount of damages, statutory penalties, and attorneys' fees under the California Labor Code Private Attorney General Act ("PAGA") on behalf of Plaintiff Jessica Gentry and other allegedly "aggrieved employees" as defined by PAGA. As previously reported by the Company, the Company believes it has meritorious defenses to the allegations and the Company intends to continue to vigorously defend against the litigation.

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, 2014, its quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2015, and its quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2015.

## 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, 2014.

## 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 (b)
July 1, 2015 to July 31, 2015	125,307	\$53.16	125,307	3,249,575
August 1, 2015 to August 31, 2015	1,091,495	\$53.40	1,091,495	2,158,080
September 1, 2015 to September 30, 2015	334,975	(a) \$50.44	334,539	1,823,541
Total July 1, 2015 to September 30, 2015	1,551,777		1,551,341	

(a) Includes 436 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.

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 96,176,459 shares have been repurchased as of September 30, 2015. As disclosed in Note J and Item 5, on October 29, 2015, an additional 10,000,000 shares have been authorized for repurchase bringing the total repurchase authorization since plan inception to 108,000,000.

## ITEM 3. Defaults Upon Senior Securities

None.

## ITEM 4. Mine Safety Disclosure

Not applicable.

## ITEM 5. Other Information

On October 29, 2015, the Company authorized the repurchase, from time to time, of up to an additional 10 million shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. The authorization is in addition to the 1.8 million shares remaining under the existing repurchase program. There is no guarantee as to whether, when, or how many shares the Company will repurchase, and the Company may discontinue the repurchase program at any time.



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 2, 2015