HALF ROBERT INTERNATIONAL INC /DE/
Form 10-K
February 23, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

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

Commission file number 1-10427

ROBERT HALF INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, Par Value $.001 per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company. ¨ Yes x No

As of June 30, 2006, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $6,670,000,000 based on the closing sale price on that date. This amount excludes the market value of 12,420,810 shares of Common Stock directly or indirectly held by registrant s directors and officers and their affiliates.

As of January 31, 2007, there were outstanding 167,972,497 shares of the registrant s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement to be mailed to stockholders in connection with the registrant s annual meeting of stockholders, scheduled to be held in May 2007, are incorporated by reference in Part III of this report. Except as expressly incorporated by reference, the registrant s Proxy Statement shall not be deemed to be part of this report.

PART I

Item 1. Business

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 the world s largest 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* began operations in May 2002 and provides business and technology risk consulting and internal audit services. *Protiviti*, which primarily employs risk consulting and internal audit professionals formerly associated with major accounting firms, is a wholly-owned subsidiary of the Company.

The Company s business was originally founded in 1948. Prior to 1986, the Company was primarily a franchisor, under the names *Accountemps* and *Robert Half* (now called *Robert Half Finance & Accounting*), of offices providing temporary and full-time professionals in the fields of accounting and finance. Beginning in 1986, the Company and its current management embarked on a strategy of acquiring franchised locations. All of the franchises have been acquired. The Company believes that direct ownership of offices allows it to better monitor and protect the image of its tradenames, promotes a more consistent and higher level of quality and service throughout its network of offices and improves profitability by centralizing many of its administrative functions. Since 1986, the Company has significantly expanded operations at many of the acquired locations, opened many new locations and acquired other local or regional providers of specialized temporary service personnel. The Company has also expanded the scope of its services by launching the new product lines *OfficeTeam*, *Robert Half Technology*, *Robert Half Management Resources*, *Robert Half Legal* and *The Creative Group*.

In 2002, the Company hired more than 700 professionals who had been affiliated with the internal audit and business and technology risk consulting practice of Arthur Andersen LLP, including more than 50 individuals who had been partners of Andersen. These professionals formed the base of the Company s new Protiviti Inc. subsidiary. *Protiviti*® has enabled the Company to enter the market for independent internal audit and business and technology risk consulting services, which market the Company believes offers synergies with its traditional lines of business.

Accountemps

The *Accountemps* temporary services division offers customers a reliable and economical means of dealing with uneven or peak work loads for accounting, tax and finance personnel caused by such predictable events as vacations, taking inventories, tax work, month-end activities and special projects and such unpredictable events as illness and emergencies. Businesses view the use of temporary employees as a means of controlling personnel costs and converting such costs from fixed to variable. The cost and inconvenience to clients of hiring and firing regular employees are eliminated by the use of *Accountemps* temporaries. The temporary workers are employees of *Accountemps* and are paid by *Accountemps* only when working on customer assignments. The customer pays a fixed rate only for hours worked.

Accountemps clients may fill their regular employment needs by using an *Accountemps* employee on a trial basis and, if so desired, converting the temporary position to a regular position. The client typically pays a one-time fee for such conversions.

OfficeTeam

The Company s *OfficeTeam* division, which commenced operations in 1991, places temporary and full-time office and administrative personnel, ranging from word processors to office managers. *OfficeTeam* operates in much the same fashion as the *Accountemps* and *Robert Half Finance & Accounting* divisions.

Robert Half Finance & Accounting

The Company s *Robert Half Finance & Accounting* division specializes in the placement of full-time accounting, financial, tax and banking personnel. Fees for successful placements are paid only by the employer and are generally a percentage of the new employee s annual compensation. No fee for placement services is charged to employment candidates.

Robert Half Technology

The Company s *Robert Half Technology* division, which commenced operations in 1994, specializes in providing information technology contract consultants and placing full-time employees in areas ranging from multiple platform systems integration to end-user support, including specialists in programming, networking, systems integration, database design and help desk support.

Robert Half Legal

Since 1992, the Company has been placing temporary and full-time employees in attorney, paralegal, legal administrative and legal secretarial positions through its *Robert Half Legal* division. The legal profession s requirements (the need for confidentiality, accuracy and reliability, a strong drive toward cost-effectiveness, and frequent peak workload periods) are similar to the demands of the clients of the *Accountemps* division.

Robert Half Management Resources

The Company s *Robert Half Management Resources* division, which commenced operations in 1997, specializes in providing senior level project professionals in the accounting and finance fields, including chief financial officers, controllers, and senior financial analysts, for such tasks as financial systems conversions, expansion into new markets, business process reengineering and post-merger financial consolidation.

The Creative Group

The Creative Group division commenced operations in 1999 and serves clients in the areas of advertising, marketing and web design and places project consultants in a variety of positions such as creative directors, graphics designers, web content developers, web designers, media buyers, and public relations specialists.

Protiviti

Protiviti provides independent internal audit and business and technology risk consulting services. *Protiviti* helps clients identify, measure, and manage operational and technology-related risks they face within their industries and throughout their systems and processes. *Protiviti* offers a full spectrum of professional consulting services, technologies, and skills for business and technology risk management and the continual transformation of internal audit functions.

Marketing and Recruiting

The Company markets its staffing services to clients as well as employment candidates. Local marketing and recruiting are generally conducted by each office or related group of offices. Local advertising directed to clients and employment candidates consists of radio, yellow pages, websites and trade shows. Direct marketing through e-mail, regular mail and telephone solicitation also constitutes a significant portion of the Company s total advertising. National advertising conducted by the Company consists primarily of radio and of print advertisements in national newspapers, magazines and trade journals. Additionally, the Company has expanded its use of job boards in all aspects of sales and recruitment. Joint marketing arrangements have been entered into with major software manufacturers and typically provide for development of proprietary skills tests, cooperative advertising, joint mailings and similar promotional activities. The Company also actively seeks endorsements and affiliations with professional organizations in the business management, office administration and professional secretarial fields. The Company also conducts public relations activities designed to enhance public recognition of the Company and its services. Local employees are encouraged to be active in civic organizations and industry trade groups.

Protiviti markets its risk consulting and internal audit services to a variety of clients in a range of industries. Industry and competency teams conduct targeted marketing efforts, both locally and nationally, including print advertising and branded speaking events, with support from *Protiviti* management. National advertising conducted by *Protiviti* consists primarily of print advertisements in national newspapers, magazines and selected trade journals. *Protiviti* has initiated a national direct mail program to share information with clients on current corporate governance and risk management issues. It conducts public relations activities, such as press releases and newsletters, designed to enhance recognition for the *Protiviti* brand, establish its expertise in key issues surrounding its business and promote its services. *Protiviti* plans to expand both the services and value added content on the *Protiviti.com* website and increase traffic through targeted Internet advertising. Local employees are encouraged to be active in civic organizations and industry trade groups.

The Company and its subsidiaries own many trademarks, service marks and tradenames, including the *Robert Half® Finance & Accounting, Accountemps®, OfficeTeam®, Robert Half® Technology, Robert Half® Management Resources, Robert Half® Legal, The Creative Group®* and *Protiviti®* marks, which are registered in the United States and in a number of foreign countries.

Organization

Management of the Company s staffing operations is coordinated from its headquarters facilities in Menlo Park and Pleasanton, California. The Company s headquarters provides support and centralized services to its offices in the administrative, marketing, public relations, accounting, training and legal areas, particularly as it relates to the standardization of the operating procedures of its offices. As of December 31, 2006, the Company conducted its staffing services operations through more than 350 offices in 42 states, the District of Columbia and seventeen foreign countries. Office managers are responsible for most activities of their offices, including sales, local advertising and marketing and recruitment.

The day-to-day operations of *Protiviti* are managed by a committee consisting of key operating personnel, with operational and administrative support provided by individuals located in Pleasanton and Menlo Park, California. As of December 31, 2006, *Protiviti* had more than 55 offices in 22 states and fourteen foreign countries.

Competition

The Company s staffing services face competition in attracting clients as well as skilled specialized employment candidates. The staffing business is highly competitive, with a number of firms offering services similar to those provided by the Company on a national, regional or local basis. In many areas the local companies are the strongest competitors. The most significant competitive factors in the staffing business are price and the reliability of service, both of which are often a function of the availability and quality of personnel. The Company believes it derives a competitive advantage from its long experience with and commitment to the specialized employment market, its national presence, and its various marketing activities.

Protiviti faces competition in its efforts to attract clients and win proposal presentations. The risk consulting and internal audit businesses are highly competitive due to many new firms entering the market and the evolution of established firms in the business space. In addition, the changing regulatory environment is increasing opportunities for non-attestation audit and risk consulting services. The principal competitors of *Protiviti* remain the big four accounting firms. Significant competitive factors include reputation, technology, tools, project methodologies, price of services and depth of skills of personnel. *Protiviti* believes its competitive strengths lie in its unique ability to couple the deep skills and proven methodologies of its big four heritage with the customer focus and attention of a smaller organization.

Employees

The Company has approximately 13,400 full-time staff employees, including approximately 2,800 engaged directly in *Protiviti* operations. The Company placed approximately 242,000 employees on temporary assignments with clients during 2006. Temporary employees placed by the Company are the Company s employees for all purposes while they are working on assignments. The Company pays the related costs of employment, such as workers compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company provides access to voluntary health insurance coverage to interested temporary employees.

Other Information

The Company s current business constitutes three business segments. (See Note M of Notes to Consolidated Financial Statement in Item 8. Financial Statements and Supplementary Data for financial information about the Company s segments.)

The Company is not dependent upon a single customer or a limited number of customers. The Company s staffing services operations are generally more active in the first and fourth quarters of a calendar year. *Protiviti* has been in operation since May 2002. *Protiviti* is generally more active in the third and fourth quarters of a calendar year. Order backlog is not a material aspect of the Company s staffing services business. While backlog is of greater importance to *Protiviti*, the Company does not believe, based upon the length of time of the average *Protiviti* engagement, that backlog is a material aspect of the *Protiviti* business. No material portion of the Company s business is subject to government contracts.

Information about foreign operations is contained in Note M of Notes to Consolidated Financial Statements in Item 8. The Company does not have export sales.

Available Information

The Company s Internet address is *www.rhi.com*. The Company makes available, free of charge, through its website, its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q, and its Current Reports on Form 8-K, and any amendments to those reports, as soon as is reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission. Also available on the Company s website are its Corporate Governance Guidelines, its Code of Business Conduct and Ethics, and the charters for its Audit Committee, Compensation Committee and Nominating and Governance Committee, each of which is available in print to any stockholder who makes a request to Robert Half International Inc., 2884 Sand Hill Road, Menlo Park, CA 94025, Attn: Corporate Secretary. The Company s Code of Business Conduct and Ethics is the Code of Ethics required by Item 406 of Securities and Exchange Commission Regulation S-K. The Company intends to satisfy any disclosure obligations under Item 5.05 of Form 8-K regarding any amendment or waiver relating to its Code of Business Conduct and Ethics by posting such information on its website.

Item 1A. Risk Factors

The Company s business prospects are subject to various risks and uncertainties that impact its business. The most important of these risks and uncertainties are as follows:

Business Highly Dependent Upon the State of the Economy. The demand for the Company s services, in particular its staffing services, is highly dependent upon the state of the economy and upon the staffing needs of the Company s clients. Any variation in the economic condition or unemployment levels of the U.S. or of any of the foreign countries in which the Company does business, or in the economic condition of any region of any of the foregoing, or in any specific industry may severely reduce the demand for the Company s services and thereby significantly decrease the Company s revenues and profits.

Availability of Candidates. The Company s staffing services business consists of the placement of individuals seeking employment. There can be no assurance that candidates for employment will continue to seek employment through the Company. Candidates generally seek temporary or regular positions through multiple sources, including the Company and its competitors. Any shortage of candidates could materially adversely affect the Company.

Highly Competitive Business. The staffing services business is highly competitive and, because it is a service business, the barriers to entry are quite low. There are many competitors, some of which have greater resources than the Company, and new competitors are entering the market all the time. In addition, long-term contracts form a negligible portion of the Company s revenue. Therefore, there can be no assurance that the Company will be able to retain clients or market share in the future. Nor can there be any assurance that the Company will, in light of competitive pressures, be able to remain profitable or, if profitable, maintain its current profit margins.

Reputation. The success of the Company s staffing and *Protiviti* businesses is highly dependent upon their reputations. Any event that adversely impacts the reputation of either business could materially adversely affect the Company.

Potential Liability to Employees and Clients. The Company s temporary services business entails employing individuals on a temporary basis and placing such individuals in clients workplaces. The Company s ability to control the workplace environment is limited. As the employer of record of its temporary employees, the Company incurs a risk of liability to its temporary employees for various workplace events, including claims of physical injury, discrimination or harassment. While such claims have not historically had a material adverse effect upon the Company, there can be no assurance that such claims in the future will not result in adverse publicity or have a material adverse effect upon the Company. The Company also incurs a risk of liability to its clients resulting from allegations of errors, omissions or theft by its temporary employees. The Company maintains insurance with respect to many of such claims. While such claims have not historically had a material adverse effect upon the Company, there can be no assurance that the Company will continue to be able to obtain insurance at a cost that does not have a material adverse effect upon the Company or that such claims (whether by reason of the Company not having insurance or by reason of such claims being outside the scope of the Company s insurance) will not have a material adverse effect upon the Company.

Dependence Upon Personnel. The Company is engaged in the services business. As such, its success or failure is highly dependent upon the performance of its management personnel and employees, rather than upon technology or upon tangible assets (of which the Company has few). There can be no assurance that the Company will be able to attract and retain the personnel that are essential to its success.

Government Regulation. The Company s business is subject to regulation or licensing in many states and in certain foreign countries. While the Company has had no material difficulty complying with regulations in the past, there can be no assurance that the Company will be able to continue to obtain all necessary licenses or approvals or that the cost of compliance will not prove to be material. Any inability of the Company to comply with government regulation or licensing requirements could materially adversely affect the Company.

Government Regulation of the Workplace. The Company s temporary services business entails employing individuals on a temporary basis and placing such individuals in clients workplaces. Increased government regulation of the workplace or of the employer-employee relationship, or judicial or administrative proceedings related to such regulation, could materially adversely affect the Company.

Demand for Services. The operations of both the staffing services business and *Protiviti* include services related to Sarbanes-Oxley and other regulatory compliance. There can be no assurance that there will be ongoing demand for these services.

Reliance on Short-Term Contracts. Because long-term contracts are not a significant part of the Company s staffing services business, future results cannot be reliably predicted by considering past trends or extrapolating past results.

The Company and certain subsidiaries are defendants in several class and representative action lawsuits alleging various wage and hour claims that could cause the Company to incur substantial liabilities. The Company and certain subsidiaries are defendants in several class and representative action lawsuits brought by or on behalf of the Company s current and former employees alleging violations of federal and state law with respect to certain wage and hour matters. The Company and certain subsidiaries are currently defendants in four such lawsuits in California and one such lawsuit in Massachusetts. All five lawsuits allege, among other things, the misclassification of certain employees as exempt employees under federal and state law and other related wage and hour violations and seek an unspecified amount for unpaid overtime compensation, statutory penalties, and other damages, as well as attorneys fees. It is not possible to predict the outcome of these lawsuits. However, these lawsuits may consume substantial amounts of the Company s financial and managerial resources and might result in adverse publicity, regardless of the ultimate outcome of the lawsuits. In addition, the Company and its subsidiaries may become subject to similar lawsuits in the same or other jurisdictions. An unfavorable outcome with respect to these lawsuits and any future lawsuits could, individually or in the aggregate, cause the Company to incur substantial liabilities that may have a material adverse effect upon the Company s business, financial condition or results of operations.

Protiviti Dependence on Personnel. Protiviti is a services business, and is dependent upon its ability to attract and retain personnel. While Protiviti has retained its key personnel to date, there can be no assurance that it will continue to be able to do so.

Protiviti Competition. *Protiviti* operates in a highly competitive business. As with the Company s staffing services business, the barriers to entry are quite low. There are many competitors, some of which have greater resources than *Protiviti* and many of which have been in operation far longer than *Protiviti*. In particular, *Protiviti* faces competition from the big four accounting firms, which have been in operation for a considerable period of time and have established reputations and client bases. Because the principal factors upon which competition is based are reputation, technology, tools, project methodologies, price of services and depth of skills of personnel, there can be no assurance that *Protiviti* will be successful in attracting and retaining clients.

Potential Liability. The business of *Protiviti* consists of providing internal audit and business and technology risk consulting services. Liability could be incurred or litigation could be instituted against the Company or *Protiviti* for claims related to these activities or to prior transactions or activities. There can be no assurance that such liability or litigation will not have a material adverse impact on *Protiviti* or the Company.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

The Company s headquarters operations are located in Menlo Park and Pleasanton, California. As of December 31, 2006, placement activities were conducted through more than 350 offices located in the United States, Canada, the United Kingdom, Belgium, France, the Netherlands, Germany, the Czech Republic, Ireland, Italy, Luxembourg, Spain, Switzerland, Japan, China, Singapore, Australia and New Zealand. As of December 31, 2006, *Protiviti* had more than 55 offices in the United States, Canada, Mexico, Brasil, Australia, China, France, Germany, Italy, the Netherlands, Japan, Singapore, South Korea, India and the United Kingdom. All of the offices are leased.

Item 3. Legal Proceedings

On September 10, 2004, Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. On June 22, 2006, the Court heard cross-motions concerning class certification. On September 18, 2006, the Court issued an order certifying a class with respect to claims for alleged unpaid overtime pay but denied certification with respect to claims relating to meal periods and rest time breaks. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On December 6, 2004, Plaintiffs Ian O Donnell and David Jolicoeur, on behalf of themselves and a putative class of salaried Staffing Managers, Account Executives and Account Managers, filed a complaint in Massachusetts Superior Court naming the Company and one of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Staffing Managers, Account Executives and Account Managers based in Massachusetts within the past two years have been misclassified under Massachusetts law as exempt employees and seeks an unspecified amount equal to three times their unpaid overtime compensation alleged to be due to them had they been paid as non-exempt, hourly employees, plus costs and legal fees. The complaint also makes similar allegations under the U.S. Fair Labor Standards Act on behalf of all Staffing Managers, Account Executives and Account Managers employed in any state other than Massachusetts and California within the past three years and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt, hourly employees, plus an equal amount as liquidated damages. The case has been removed to the United States District Court for the District of Massachusetts. On March 30, 2006, the Court denied Plaintiffs first motion seeking conditional certification of their federal claims as a collective action on behalf of a group of Staffing Managers, Account Executives and Account Managers. The same day, the Court allowed Plaintiffs to amend their complaint to add claims that the Company failed to pay its exempt employees on a salary basis as required by Massachusetts and federal law. Plaintiffs have also filed a second motion for conditional certification of their federal claims in which they seek to represent a class of salaried employees who worked for the Company in any state other than California within three years before the original complaint was filed and seeking permission to mail class members a notice regarding their right to opt into the case as Plaintiffs. The Company has opposed that motion, and the Court has not yet issued a ruling. Because the litigation is at an early stage, it is not feasible to predict its outcome or a range of loss, should a loss occur. Accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On August 9, 2005, Plaintiff Lizette Greene, on behalf of herself and a putative class of salaried inside sales persons, filed a complaint in United States District Court for the Northern District of California naming the

Company and three of its wholly owned subsidiaries as Defendants. On December 1, 2005, the Plaintiff amended the Complaint. The Amended Complaint alleges that purported inside sales persons based in California have been misclassified under federal law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt, hourly employees. In addition, the Plaintiff also makes two claims under the California Private Attorney Generals Act seeking an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. Plaintiff also makes a claim under California Business and Professions Code § 17200 for a putative nation wide class of purported inside sales persons. On December 22, 2006, the Plaintiff filed a motion for conditional certification of their federal claims in which they seek to represent a class of salaried employees who worked for the Company and certain of its subsidiaries in California within three years before the complaint was filed and seeking permission to mail class members a notice regarding their right to opt into the case as plaintiffs. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On March 28, 2006, Plaintiffs Maria Pellegrino, Nadia Balici, Carolyn Cox, Kelli Maresch, Jennifer McCasland and James Rossetto, all former, salaried Account Executives based in California, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that Plaintiffs were misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. Plaintiffs also seek an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of the Plaintiff employees as exempt employees. In addition, Plaintiffs complaint includes a cause of action for unfair competition under the California Business & Professions Code. Under this cause of action, Plaintiffs seek restitutionary damages of unpaid wages for themselves and all similarly situated employees as well as recovery of Plaintiffs attorneys fees. The trial date is presently scheduled for June 4, 2007. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On May 4, 2006, Plaintiff Don Tran, on behalf of himself and a putative class of salaried Consultants, and a sub-class of terminated salaried Consultants, filed a complaint in California Superior Court naming Protiviti Inc., a wholly-owned subsidiary of the Company (Protiviti), as Defendant. The complaint alleges that salaried Consultants based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt, hourly employees. Plaintiff also seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. The complaint further seeks damages and penalties for the failure to provide meal and rest periods, and for the failure to reimburse business expenses, including, without limitation, parking and cellular telephone expenses. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. Protiviti believes it has meritorious defenses to the allegations, and Protiviti 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 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.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price, Dividends and Related Matters

The Company s Common Stock is listed for trading on the New York Stock Exchange under the symbol RHI . On December 31, 2006, there were approximately 5,900 holders of record of the Common Stock.

Following is a list by fiscal quarters of the sales prices of the stock:

	Sales Prices	
2006	**High**	**Low**
4th Quarter	$ 39.50	$ 33.18
3rd Quarter	$ 41.90	$ 29.91
2nd Quarter	$ 43.94	$ 37.44
1st Quarter	$ 39.81	$ 35.20

	Sales Prices	
2005	**High**	**Low**
4th Quarter	$ 39.86	$ 31.98
3rd Quarter	$ 36.45	$ 24.66
2nd Quarter	$ 27.09	$ 23.95
1st Quarter	$ 31.12	$ 26.06

Cash dividends of $.08 per share were declared and paid in each quarter of 2006. Cash dividends of $.07 per share were declared and paid in each quarter of 2005.

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)
October 1, 2006 to October 31, 2006	642,649(a)	$ 37.38		2,192,646
November 1, 2006 to November 30, 2006	646,925(a)	$ 36.44		12,192,646
December 1, 2006 to December 31, 2006	819,796(b)	$ 37.72	819,400	11,373,246
Total October 1, 2006 to December 31, 2006	2,109,370		819,400	

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

(c) Commencing in October 1997, the Company s Board of Directors has, at various times, authorized the repurchase, from time to time, of the Company s common stock on the open market or in privately negotiated transactions depending on market conditions. On November 1, 2006, the Company s Board of Directors authorized the repurchase, from time to time, of up to 10,000,000 additional shares of the Company s common stock on the open market or in privately negotiated transactions, depending on market conditions, bringing the total authorization since plan inception to 58,000,000 shares, of which 46,626,754 shares have been repurchased as of December 31, 2006.

The remainder of the information required by this item is incorporated by reference to Part III, Item 12 of this Form 10-K.

Item 6. Selected Financial Data

The selected five-year financial data presented below should be read in conjunction with the information contained in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Company s Consolidated Financial Statements and the Notes thereto contained in Item 8. Financial Statements and Supplementary Data.

	Years Ended December 31, (in thousands)				
	2006	**2005**	**2004**	**2003**	**2002**
Income Statement Data:					
Net service revenues	$ 4,013,546	$ 3,338,439	$ 2,675,696	$ 1,974,991	$ 1,904,951
Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees	2,319,293	1,965,390	1,619,394	1,248,253	1,190,216
Gross margin	1,694,253	1,373,049	1,056,302	726,738	714,735
Selling, general and administrative expenses	1,243,952	991,488	824,382	707,349	709,542
Amortization of intangible assets	851	335	1,025	10,277	6,281
Interest income, net	(16,752)	(10,948)	(3,770)	(2,603)	(4,585)
Income before income taxes	466,202	392,174	234,665	11,715	3,497
Provision for income taxes	183,024	154,304	94,061	5,325	1,329
Net income	$ 283,178	$ 237,870	$ 140,604	$ 6,390	$ 2,168

	Years Ended December 31, (in thousands, except per share amounts)				
	2006	**2005**	**2004**	**2003**	**2002**
Net Income Per Share:					
Basic	$ 1.71	$ 1.42	$ .83	$ .04	$ .01
Diluted	$ 1.65	$ 1.36	$ .79	$ .04	$ .01
Shares:					
Basic	166,003	167,664	169,742	168,719	172,484
Diluted	171,712	174,382	176,866	173,175	177,791
Cash Dividends Declared Per Share	$ .32	$ .28	$ .18	$ .00	$ .00

	December 31, (in thousands)				
	2006	**2005**	**2004**	**2003**	**2002**
Balance Sheet Data:					
Goodwill and other intangible assets, net	$ 178,665	$ 165,857	$ 167,931	$ 162,508	$ 161,912
Total assets	$ 1,459,021	$ 1,318,686	$ 1,198,657	$ 985,647	$ 937,996
Long-term debt financing	$ 3,831	$ 2,698	$ 2,266	$ 2,343	$ 2,414
Stockholders equity	$ 1,042,671	$ 970,873	$ 911,870	$ 788,661	$ 744,966

Item 7. 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 th 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: 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; whether governments will impose additional regulations or licensing requirements on personnel services businesses in particular or on employer/employee relationships in general; whether there will be ongoing demand for Sarbanes-Oxley or other regulatory compliance services; and 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. 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. Further information regarding these and other risks and uncertainties is contained in Item 1A. Risk Factors. Because long-term contracts are not a significant part of the Company s business, future results cannot be reliably predicted by considering past trends or extrapolating past results.

Critical Accounting Policies and Estimates

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

Accounts Receivable Allowances. The Company maintains allowances for estimated losses resulting from (i) the inability of its customers to make required payments, (ii) temporary placement sales adjustments, and (iii) permanent placement candidates not remaining with the client through the 90-day guarantee period, commonly referred to as fall offs . The Company establishes these allowances based on its review of customers credit profiles, historical loss statistics and current trends. The adequacy of these allowances is reviewed each reporting period. Historically, the Company s actual losses and credits have been consistent with these allowances. As a percentage of gross accounts receivable, the Company s accounts receivable allowances totaled 4.1% and 4.4% as of December 31, 2006 and 2005, respectively. As of December 31, 2006, a five-percentage point deviation in the Company s accounts receivable allowances balance would have resulted in an increase or decrease in the allowance of $1.1 million. Although future results cannot always be predicted by extrapolating past results, management believes that it is reasonably likely that future results will be consistent with historical trends and experience. However, if the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, or if unexpected events or significant future changes in trends were to occur, additional allowances may be required.

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

The Company also evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. Management evaluates all positive and negative evidence and uses judgment regarding past and future events, including operating results, to help determine when it is more likely than not that all or some portion of our deferred tax assets may not be realized. Wh