

HALF ROBERT INTERNATIONAL INC /DE/  
Form 10-Q  
November 01, 2018

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-10427  
ROBERT HALF INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)  
Delaware 94-1648752  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2884 Sand Hill Road  
Suite 200 94025  
Menlo Park, California  
(Address of principal executive offices) (zip-code)  
Registrant's telephone number, including area code: (650) 234-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018:  
121,475,032 shares of \$.001 par value Common Stock

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands, except share amounts)

September 30, 2018	December 31, 2017		
<b>ASSETS</b>			
Cash and cash equivalents	\$ 361,740	\$ 294,753	
Accounts receivable, less allowances of \$24,873 and \$33,181	834,347	732,405	
Other current assets	416,313	404,711	
Total current assets	1,612,400	1,431,869	
Goodwill	210,481	210,885	
Other intangible assets, net	3,547	4,946	
Property and equipment, net	125,175	144,887	
Deferred income taxes	83,304	74,867	
Total assets	\$ 2,034,907	\$ 1,867,454	
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 167,197	\$ 126,937	
Accrued payroll and benefit costs	718,956	612,899	
Income taxes payable	9,932	7,877	
Current portion of notes payable and other indebtedness	195	183	
Total current liabilities	896,280	747,896	
Notes payable and other indebtedness, less current portion	509	657	
Other liabilities	18,876	13,636	
Total liabilities	915,665	762,189	
Commitments and Contingencies (Note G)			
<b>STOCKHOLDERS' EQUITY</b>			
Preferred stock, \$.001 par value authorized 5,000,000 shares; issued and outstanding zero shares	—	—	
Common stock, \$.001 par value authorized 260,000,000 shares; issued	121	124	

and  
 outstanding 121,375,014  
 shares and 124,261,458  
 shares

Capital surplus	1,097,600		1,064,601
Accumulated other comprehensive (loss) income	(9,792	)	3,507
Retained earnings	31,313		37,033
Total stockholders' equity	1,119,242		1,105,265
Total liabilities and stockholders' equity	\$	2,034,907	\$ 1,867,454

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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net service revenues	\$1,466,226	\$1,324,709	\$4,318,613	\$3,920,507
Direct costs of services, consisting of payroll, payroll taxes, benefit costs and reimbursable expenses	855,758	778,309	2,528,661	2,309,841
Gross margin	610,468	546,400	1,789,952	1,610,666
Selling, general and administrative expenses	459,330	414,179	1,354,936	1,222,149
Amortization of intangible assets	429	481	1,334	1,147
Interest income, net	(1,196)	(530)	(2,937)	(1,108)
Income before income taxes	151,905	132,270	436,619	388,478
Provision for income taxes	36,663	47,570	115,895	144,941
Net income	\$115,242	\$84,700	\$320,724	\$243,537
Net income per share:				
Basic	\$.96	\$.69	\$2.65	\$1.96
Diluted	\$.95	\$.68	\$2.62	\$1.94
Shares:				
Basic	120,115	123,569	121,112	124,567
Diluted	121,443	124,200	122,193	125,233
Cash dividends declared per share	\$.28	\$.24	\$.84	\$.72

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,	
	2018	2017	2018	2017
COMPREHENSIVE INCOME:				
Net income	\$ 115,242	\$ 84,700	\$ 320,724	\$ 243,537
Foreign currency translation adjustments, net of tax	(3,383 )	7,210	(13,299 )	22,206
Total comprehensive income	\$ 111,859	\$ 91,910	\$ 307,425	\$ 265,743

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,	
	2018	2017
<b>COMMON STOCK—SHARES:</b>		
Balance at beginning of period	124,261	127,797
Net issuances of restricted stock	523	818
Repurchases of common stock	(3,409	) (3,268 )
Balance at end of period	121,375	125,347
<b>COMMON STOCK—PAR VALUE:</b>		
Balance at beginning of period	\$124	\$128
Net issuances of restricted stock	1	1
Repurchases of common stock	(4	) (4 )
Balance at end of period	\$121	\$125
<b>CAPITAL SURPLUS:</b>		
Balance at beginning of period	\$1,064,601	\$1,022,411
Net issuances of restricted stock at par value	(1	) (1 )
Stock-based compensation expense	33,000	31,163
Balance at end of period	\$1,097,600	\$1,053,573
<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:</b>		
Balance at beginning of period	\$3,507	\$(20,502 )
Foreign currency translation adjustments, net of tax	(13,299	) 22,206
Balance at end of period	\$(9,792	) \$1,704
<b>RETAINED EARNINGS:</b>		
Balance at beginning of period	\$37,033	\$84,562
Net income	320,724	243,537
Repurchases of common stock—excess over par value	(223,440	) (152,650 )
Cash dividends (\$.84 per share and \$.72 per share)	(103,004	) (91,033 )
Balance at end of period	\$31,313	\$84,416

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,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$320,724	\$243,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	1,334	1,147
Depreciation expense	48,344	47,916
Stock-based compensation expense—restricted stock and stock units	33,000	31,163
Deferred income taxes	(8,427 )	(13,309 )
Provision for doubtful accounts	8,210	5,327
Changes in assets and liabilities:		
Increase in accounts receivable	(119,096 )	(21,810 )
Increase in accounts payable, accrued expenses, accrued payroll and benefit costs	131,874	65,745
Increase in income taxes payable	18,339	32,320
Change in other assets, net of change in other liabilities	14,975	(3,573 )
Net cash flows provided by operating activities	449,277	388,463
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for acquisitions, net of cash acquired	—	(1,699 )
Capital expenditures	(27,186 )	(28,540 )
Payments to trusts for employee deferred compensation plans	(27,984 )	(23,837 )
Net cash flows used in investing activities	(55,170 )	(54,076 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(216,401 )	(167,342 )
Cash dividends paid	(102,696 )	(91,078 )
Payments for notes payable and other indebtedness	(136 )	(124 )
Net cash flows used in financing activities	(319,233 )	(258,544 )
Effect of exchange rate changes on cash and cash equivalents	(7,887 )	12,292
Net increase in cash and cash equivalents	66,987	88,135
Cash and cash equivalents at beginning of period	294,753	260,201
Cash and cash equivalents at end of period	\$361,740	\$348,336
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Non-cash items:		
Stock repurchases awaiting settlement	\$7,043	\$—

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, 2018

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 creative, digital, marketing, advertising and public relations professionals. Protiviti is a global consulting firm that helps companies solve problems in finance, technology, operations, data, analytics, 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, 2017, 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, 2018, 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. Actual results and outcomes may differ from management’s estimates and assumptions.

**Revenue Recognition.** Revenues from contracts with customers are generated in three segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. Revenues are recognized when promised goods or services are delivered to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. See Note C for further discussion of revenue recognition and disaggregation of revenues.

**Advertising Costs.** The Company expenses all advertising costs as incurred. Advertising costs for the three and nine months ended September 30, 2018 and 2017, are reflected in the following table (in thousands):

Three Months Ended September 30,	Nine Months Ended September 30,
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	2018	2017	2018	2017
Advertising costs	\$12,629	\$12,051	\$40,126	\$35,747

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ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 September 30, 2018

Note B— New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards 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.

The Company adopted the new guidance, using the modified retrospective method applied to all contracts not completed as of January 1, 2018, and since the adoption of the new guidance was not material, no adjustment was made to opening retained earnings. The Company also had no significant changes to systems, processes, or controls. The adoption of the guidance did not have a material impact on the Company's income statement. In accordance with the new guidance, the Company reclassified certain allowances that are now reflected as liabilities. The impact to the Company's balance sheet is as follows (in thousands):

	September 30, 2018		
	Balances		
As Reported	Without Adoption of Revenue Guidance	Effect of Change Higher	Effect of Change (Lower)
<b>Assets</b>			
Accounts receivable, net	\$834,347	\$823,156	\$11,191
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$167,197	\$156,006	\$11,191

Classification of Certain Cash Receipts and Cash Payments in Statement of Cash Flows. In August 2016, the FASB issued authoritative guidance designed to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including: i) contingent consideration payments made after a business combination; ii) proceeds from the settlement of insurance claims; and iii) proceeds from the settlement of corporate-owned life insurance policies. The Company adopted the new guidance as of January 1, 2018. The adoption of this guidance did not have a material impact on the Company's financial statements.

Stock Compensation. In May 2017, the FASB issued authoritative guidance updating which changes in the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the amended guidance, entities are required to account for the effects of a modification if the fair value, vesting conditions or classification (as an equity instrument or a liability instrument) of the modified award change from that of the original award immediately before the modification. The Company adopted the new guidance as of January 1, 2018. The adoption of this guidance did not have a material impact on the Company's financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Current Expected Credit Losses Model. In June 2016, the FASB issued authoritative guidance amending how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model, which is a new impairment model based on expected losses. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2019,

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
September 30, 2018

with early adoption permitted for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements and related disclosures.

**Lease Accounting.** In February 2016, the FASB issued authoritative guidance which changes financial reporting as it relates to leasing transactions. Under the new guidance, lessees will be required to recognize a lease liability, measured on a discounted basis; and a right-of-use asset, for the lease term. The new guidance is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted for all entities upon issuance. Lessees and lessors may elect to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements; or they may elect to apply the provisions of the guidance, using a prospective approach, beginning at the adoption date and recognize a cumulative effect adjustment to opening retained earnings in the period of adoption. The new standard will be effective for the Company beginning January 1, 2019, and the Company intends to implement the new standard using a prospective approach. Upon adoption, the Company expects to elect the package of practical expedients available under the new standard, which allows the Company to forgo a reassessment of (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) the initial direct costs for any existing leases. The Company expects that the impact of the adoption of the guidance will be material to its consolidated statement of financial position, and will require certain changes to its systems and processes.

**Simplifying the Test for Goodwill Impairment.** In January 2017, the FASB issued authoritative guidance to simplify the goodwill impairment testing process. The new standard eliminates Step 2 of the goodwill impairment test. If a company determines in Step 1 of the goodwill impairment test that the carrying value of goodwill is greater than the fair value, an impairment in that amount should be recorded to the income statement, rather than proceeding to Step 2. The new guidance is effective for the Company for fiscal years beginning after December 15, 2019, although early adoption is permitted. The Company believes the adoption of this guidance will not have a material impact on its financial statements.

**Cloud Computing.** In August 2018, the FASB issued authoritative guidance which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Entities are required to present the expense related to capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting elements of the arrangement and classify the payments for the capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. Entities are also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment of the fees of the associated hosting arrangement would be presented. The new guidance is effective for the Company for annual and interim periods beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

#### Note C—Revenue Recognition

Revenues from contracts with customers are generated in three segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. Revenues are recognized when promised goods or services are delivered to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Net service revenues, as presented on the unaudited Condensed Consolidated Statements of Operations, represent services rendered to customers less variable consideration, such as sales adjustments and allowances.

Reimbursements, including those related to travel and out-of-pocket expenses, are recorded on a gross basis and included in net service revenues, with equivalent amounts of reimbursable expenses included in direct costs of services.

Temporary and consultant staffing revenues. Temporary and consultant staffing revenues from contracts with customers are recognized in the amount to which the Company has a right to invoice, when the services are rendered by the Company's temporary employees.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 September 30, 2018

The Company records temporary and consultant staffing revenue on a gross basis as a principal versus on a net basis as an agent in the presentation of revenues and expenses. The Company has concluded that gross reporting is appropriate because the Company (i) has the risk of identifying and hiring qualified employees, (ii) has the discretion to select the employees and establish their price and duties and (iii) bears the risk for services that are not fully paid for by customers. Fees paid to Time Management or Vendor Management service providers selected by clients are recorded as a reduction of revenues, as the Company is not the primary obligor with respect to those services. Employees placed on temporary assignment by the Company are the Company's legal employees while they are working on assignments. The Company pays all related costs of employment, including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company assumes the risk of acceptability of its employees to its customers.

Permanent placement staffing revenues. Permanent placement staffing revenues from contracts with customers are primarily recognized when employment candidates accept offers of permanent employment. The Company has a substantial history of estimating the financial impact of permanent placement candidates who do not remain with its clients through the 90-day guarantee period. These amounts are established based primarily on historical data and are recorded as liabilities. Fees to clients are generally calculated as a percentage of the new employee's annual compensation. No fees for permanent placement services are charged to employment candidates.

Risk consulting and internal audit services revenues. Risk consulting and internal audit services generally contain one or more performance obligation(s) which are satisfied over a period of time. Revenues are recognized over time as the performance obligations are satisfied, because the services provided do not have any alternative use to the Company, and contracts generally include language giving the Company an enforceable right to payment for services provided to date. Revenue is measured using cost incurred relative to total estimated cost for the engagement to measure progress towards satisfying the Company's performance obligations. Cost incurred represents work performed and thereby best depicts the transfer of control to the customer.

The following table presents the Company's revenues disaggregated by line of business (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Accountemps	\$479,415	\$443,376	\$1,431,567	\$1,319,649
OfficeTeam	265,235	246,207	794,749	726,755
Robert Half Technology	176,552	157,038	508,060	472,309
Robert Half Management Resources	162,564	158,187	503,652	471,997
Temporary and consulting staffing	1,083,766	1,004,808	3,238,028	2,990,710
Permanent placement staffing	129,667	111,333	386,105	327,619
Risk consulting and internal audit services	252,793	208,568	694,480	602,178
Net service revenues	\$1,466,226	\$1,324,709	\$4,318,613	\$3,920,507

Payment terms in our contracts vary by the type and location of our customer and the services offered. The term between invoicing and when payment is due is not significant.

Contracts with multiple performance obligations are recognized as performance obligations are delivered, and contract value is allocated based on relative stand-alone selling values of the services and products in the arrangement. As of

September 30, 2018, aggregate transaction price allocated to the performance obligations that are unsatisfied for contracts with an expected duration of greater than one year was \$84.8 million. Of this amount, \$77.4 million is expected to be recognized within the next twelve months. There were no revenues recognized in the quarter ended, or the nine months ended, September 30, 2018, related to performance obligations satisfied or partially satisfied in previous periods.

Contract assets are recorded when services are performed in advance of the Company's unconditional right to payment. Contract assets as of January 1, 2018 and September 30, 2018, were not material.



ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 September 30, 2018

Contract liabilities are recorded when cash payments are received or due in advance of performance and are reflected in Accounts payable and accrued expenses on the unaudited Condensed Consolidated Balance Sheet. The following table sets forth the activity in contract liabilities from January 1, 2018 through September 30, 2018 (in thousands):

	September 30, 2018
Balance at beginning of period	\$ 9,003
Payments in advance of satisfaction of performance obligations	10,733
Revenue recognized	(9,131 )
Other, including translation adjustments	(1,673 )
Balance at end of period	\$ 8,932

Note D—Other Current Assets

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

	September 30, 2018	December 31, 2017
Deposits in trusts for employee deferred compensation plans	\$ 332,924	\$292,326
Other	83,389	112,385
Other current assets	\$ 416,313	\$404,711

Note E—Property and Equipment, Net

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

	September 30, 2018	December 31, 2017
Computer hardware	\$ 173,082	\$171,515
Computer software	379,605	376,761
Furniture and equipment	105,123	102,424
Leasehold improvements	154,272	148,764
Other	10,289	9,907
Property and equipment, cost	822,371	809,371
Accumulated depreciation	(697,196 )	(664,484 )
Property and equipment, net	\$ 125,175	\$144,887

Note F—Accrued Payroll and Benefit Costs

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

	September 30, 2018	December 31, 2017
Payroll and benefits	\$ 311,442	\$256,804
Employee deferred compensation plans	348,364	312,429
Workers' compensation	19,010	17,092
Payroll taxes	40,140	26,574
Accrued payroll and benefit costs	\$ 718,956	\$612,899

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

	September 30, 2018	December 31, 2017
Deferred compensation plan and other benefits related to the Company's Chief Executive Officer	\$ 88,065	\$ 86,145

Note G—Commitments and Contingencies

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 alleged 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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
September 30, 2018

activities related to the interview process. Rodriguez sought recovery on her own behalf and on behalf of the putative class in an unspecified amount for this allegedly unpaid compensation. Rodriguez also sought recovery of an unspecified amount for the alleged failure of the Company to provide her and the putative class with accurate wage statements, as well as an 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. On September 11, 2018, the parties settled the individual arbitration claims for an amount immaterial to the Company and, on October 19, 2018, the Court dismissed the PAGA claim with prejudice. Accordingly, the Company will not make disclosures regarding this case in its future SEC filings.

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 PAGA. On January 4, 2016, the Court denied a motion by the Company to compel all of Gentry'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 April 6, 2018, Plaintiff Shari Dorff, 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, County of Los Angeles. In addition to certain claims individual to Plaintiff Dorff, the complaint alleges that salaried recruiters based in California have been misclassified as exempt employees and seeks an unspecified amount for: unpaid wages resulting from such alleged misclassification; alleged failure to provide a reasonable opportunity to take meal periods and rest breaks; alleged failure to pay wages on a timely basis both during employment and upon separation; alleged failure to comply with California requirements regarding wage statements and record-keeping; and alleged improper denial of expense reimbursement. Plaintiff Dorff also seeks an unspecified amount of other damages, attorneys' fees, and 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"). 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.

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Note H— Stockholders' Equity

Stock Repurchase Program. As of September 30, 2018, the Company is authorized to repurchase, from time to time, up to 9.1 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, 2018 and 2017, are reflected in the following table (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Common stock repurchased (in shares)	3,255	2,957
Common stock repurchased	\$214,502	\$137,596

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 repurchases related to employee stock plans made during the nine months ended September 30, 2018 and 2017, are reflected in the following table (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Repurchases related to employee stock plans (in shares)	154	311
Repurchases related to employee stock plans	\$8,942	\$15,058

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, 2018 and 2017, 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 I—Net Income Per Share

The calculation of net income per share for the three and nine months ended September 30, 2018 and 2017 is reflected in the following table (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$115,242	\$84,700	\$320,724	\$243,537
Basic:				
Weighted average shares	120,115	123,569	121,112	124,567
Diluted:				
Weighted average shares	120,115	123,569	121,112	124,567
Dilutive effect of potential common shares	1,328	631	1,081	666
Diluted weighted average shares	121,443	124,200	122,193	125,233

Net income per share:

Basic	\$ .96	\$ .69	\$ 2.65	\$ 1.96
Diluted	\$ .95	\$ .68	\$ 2.62	\$ 1.94

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Note J—Business Segments

The Company has three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. The temporary and consultant staffing segment provides specialized staffing in the accounting and finance, administrative and office, information technology, legal, advertising, marketing and web design fields. The permanent placement staffing segment provides full-time personnel in the accounting, finance, administrative and office, and information technology fields. The risk consulting and internal audit services 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, 2017. The Company evaluates performance based on income from operations before net interest income, intangible asset amortization expense, and income taxes. 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, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net service revenues				
Temporary and consultant staffing	\$1,083,766	\$1,004,808	\$3,238,028	\$2,990,710
Permanent placement staffing	129,667	111,333	386,105	327,619
Risk consulting and internal audit services	252,793	208,568	694,480	602,178
	\$1,466,226	\$1,324,709	\$4,318,613	\$3,920,507
Operating income				
Temporary and consultant staffing	\$102,707	\$87,703	\$303,000	\$271,162
Permanent placement staffing	22,895	19,945	72,710	59,293
Risk consulting and internal audit services	25,536	24,573	59,306	58,062
	151,138	132,221	435,016	388,517
Amortization of intangible assets	429	481	1,334	1,147
Interest income, net	(1,196)	(530)	(2,937)	(1,108)
Income before income taxes	\$151,905	\$132,270	\$436,619	\$388,478

Note K—Income Taxes

The provision for income taxes was 24.1% and 36.0% for the three months ended September 30, 2018 and 2017, respectively. The provision for income taxes was 26.5% and 37.3% for the nine months ended September 30, 2018 and 2017, respectively. The lower tax rate is primarily due to the reduction of the U.S. federal corporate income tax rate from 35% to 21% beginning in 2018.

The Company recognized the income tax effects of the Tax Cuts and Jobs Act (“TCJA”) in its audited consolidated financial statements included in the Company’s 2017 Annual Report on Form 10-K in accordance with Staff Accounting Bulletin No. 118 (“SAB 118”), which provides SEC staff guidance for the application of income tax guidance in the reporting period in which the TCJA was signed into law. The guidance also provides for a measurement period of up to one year from the enactment date for the Company to complete the accounting for the U.S. tax law changes. As such, the Company’s 2017 financial results reflected the provisional amounts and an estimate of the income tax effects of the TCJA. During the nine months ended September 30, 2018, the Company recorded charges of \$5 million to its income tax provision related to the transition tax on its total post-1986 foreign earnings and profits. The estimate of the impact of TCJA is based on certain assumptions and the Company’s current

interpretation, which may change, as the Company receives additional clarification and implementation guidance and as the interpretation of the TCJA evolves over time. No additional income taxes have been



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provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis differences inherent in our foreign entities, as the Company is still in the process of evaluating its foreign cash needs, and how much, if any, of the amount of earnings should be considered indefinitely reinvested. While the Company does not anticipate any remaining adjustments to TCJA, the measurement period under SAB 118 remains open as there is still the possibility of new guidance clarifying certain aspects of TCJA. Any subsequent adjustment to these amounts will be recorded to income tax provision in the fourth quarter of 2018 when the full analysis is complete.

Note L—Subsequent Events

The Company's prior filings contained disclosures regarding a complaint filed on March 13, 2014, in the Superior Court of California, San Diego County, by Plaintiff Leonor Rodriguez, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, alleging various claims against the Company including a claim under the California 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. On September 11, 2018, the parties settled the individual arbitration claims for an amount immaterial to the Company and, on October 19, 2018, the Court dismissed the PAGA claim with prejudice. Accordingly, the Company will not make disclosures regarding this case in its future SEC filings.

On October 30, 2018, the Company announced the following:

Quarterly dividend per share	\$ .28
Declaration date	October 30, 2018
Record date	November 23, 2018
Payment date	December 14, 2018

## 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: changes to or new interpretations of U.S. or international tax regulations, 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 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 consulting staffing, permanent placement staffing, and risk consulting and internal audit services is largely dependent upon general economic and labor trends both domestically and abroad. Correspondingly, financial results for the first three quarters of 2018 were positively impacted by a growing global economy. During the first three quarters of 2018, net service revenues were \$4.32 billion, an increase of 10% from the prior year. Net income increased 32% to \$321 million and diluted net income per share increased 35% to \$2.62. The year over year net income and net income per share growth benefited significantly from the reduction in the U.S. federal corporate income tax rate from 35% to 21% beginning in 2018. All three of the Company's reportable segments experienced revenue growth, led by permanent placement staffing which increased 18% for the first three quarters of 2018 compared to the first three quarters of 2017.

We believe that the Company is well positioned in the current macroeconomic environment. The United States economic backdrop throughout the first three quarters of 2018 improved as real gross domestic product ("GDP") grew 2.2%, 4.2%, and 3.5% for the first, second, and third quarter, respectively, while the unemployment rate declined from 4.1% in December 2017 to 3.7% at the end of the third quarter of 2018. In the United States, the number of job openings has exceeded the number of hires since February 2015, creating competition for skilled talent that increases

the Company's value to clients. The secular demand for temporary staffing is also ongoing. The number of temporary workers as a percentage of the overall U.S. workforce remains near an all-time high, as sign employers are building flexible staffing options into their human resource plans with increasing frequency.

Protiviti continues to see strong demand for its consulting and internal audit solutions. Protiviti has expanded its service offerings and continues to nurture and grow a loyal client base.

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 macroeconomic 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 2018, we added headcount in our temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services compared to prior year-end levels.

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 expect headcount levels for our full-time staff to be modestly higher for each of our reporting segments throughout the remainder of 2018.

Capital expenditures for the nine months ended September 30, 2018 totaled \$27 million, approximately 39% of which represented investments in software initiatives and technology infrastructure, both of which are important to the Company's future growth opportunities. As such, during the first three quarters of 2018, we continued to invest in digital technology initiatives designed to enhance our service offerings to both clients and candidates. Capital expenditures also included amounts spent on tenant improvements and furniture and equipment in the Company's leased offices. We currently expect that 2018 capital expenditures will range from \$35 million to \$45 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, 2017. There were no changes to the Company's critical accounting policies or estimates for the nine months ended September 30, 2018.

**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 may elect to first perform a qualitative assessment to assess whether it is more likely than not the fair value of the reporting units exceeds their respective carrying values. If the Company determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then a quantitative assessment is required. The Company completed its qualitative assessment as of June 30, 2018, and determined that it was more likely than not that the fair value of its reporting units was greater than their respective carrying values, indicating no impairment. 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'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, 2018, of \$127.3 million, \$26.1 million, \$0.0 million, \$7.0 million, \$0.0 million and \$50.1 million, respectively, totaling \$210.5 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, 2018.

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 judgments and assumptions made for purposes of the Company's goodwill impairment analysis will prove to be accurate predictions of the future.

#### 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 consulting staffing, permanent placement staffing, and risk consulting and internal audit services is largely dependent upon general economic and labor market conditions both domestically and abroad. Correspondingly, all three of the Company's reportable segments for the first three quarters of 2018 were positively impacted by a growing global economy. Because of the inherent difficulty in predicting economic trends and the absence of material long-term contracts in any of the Company's business units, future demand for the

Company's services cannot be forecast with certainty. We believe the Company is well positioned in the current global macroeconomic environment.

The Company's temporary and permanent placement staffing business has 324 offices in 42 states, the District of Columbia and 17 foreign countries, while Protiviti has 62 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, billing days, and certain intercompany adjustments. The Company provides "as adjusted" 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 an as adjusted 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, constant currency exchange rates, and certain intercompany adjustments.

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. In order to remove the fluctuations caused by the impact of certain intercompany adjustments, applicable comparative period revenues are reclassified to conform with the current period presentation. The term "as adjusted" means that the impact of different billing days, constant currency fluctuations, and certain intercompany adjustments are removed from the revenue growth rate 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 as adjusted 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, 2018 and 2017

Revenues. The Company's revenues were \$1.47 billion for the three months ended September 30, 2018, increasing by 10.7% compared to \$1.32 billion for the three months ended September 30, 2017. Revenues from foreign operations represented 24% of total revenues for the three months ended September 30, 2018, up from 23% of total revenues for the three months ended September 30, 2017. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. Revenue growth was strongest internationally. For the three months ended September 30, 2018, revenues for all three of the Company's reportable segments were up, compared to the same period in 2017. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing revenues were \$1.08 billion for the three months ended September 30, 2018, increasing by 7.9% compared to revenues of \$1.00 billion for the three months ended September 30, 2017. Key drivers of temporary and consultant staffing revenues include average hourly bill rates and the number of hours worked by the Company's temporary employees on client engagements. On an as adjusted basis, temporary and consultant staffing revenues increased 8.9% for the third quarter of 2018 compared to the third quarter of 2017, due primarily to a 4.9% increase in average bill rates and an increase in the number of hours worked by the Company's

temporary employees. In the U.S., revenues in the third quarter of 2018 increased 6.8% on an as reported basis and 6.5% on an as adjusted basis, compared to the third quarter of 2017.

For the Company's international operations, 2018 third quarter revenues increased 11.6% on an as reported basis and 17.8% on an as adjusted basis, compared to the third quarter of 2017. Permanent placement staffing revenues were \$130 million for the three months ended September 30, 2018, increasing by 16.5% compared to revenues of \$111 million for the three months ended September 30, 2017. Key d