

HALF ROBERT INTERNATIONAL INC /DE/
Form 10-Q
November 06, 2006

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, 2006

OR

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

FOR THE TRANSITION PERIOD FROM _____ to _____.

Commission File Number 1-10427

ROBERT HALF INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

of incorporation or organization)

2884 Sand Hill Road

Suite 200

Menlo Park, California
(Address of principal executive offices)

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

94-1648752
(I.R.S. Employer

Identification No.)

94025
(zip-code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

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 October 31, 2006:

167,577,808 shares of \$.001 par value Common Stock

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

(in thousands, except share amounts)

| | September 30, 2006 | December 31, 2005 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 431,657 | \$ 458,358 |
| Accounts receivable, less allowances of \$23,344 and \$20,766 | 536,629 | 451,260 |
| Deferred income taxes and other current assets | 121,421 | 107,290 |
| Total current assets | 1,089,707 | 1,016,908 |
| Goodwill and other intangible assets, net | 180,204 | 165,857 |
| Property and equipment, net | 130,050 | 110,515 |
| Deferred income taxes | 32,282 | 25,406 |
| Total assets | \$ 1,432,243 | \$ 1,318,686 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 99,276 | \$ 89,133 |
| Accrued payroll costs and retirement obligations | 303,876 | 239,509 |
| Income taxes payable | 29,141 | 7,703 |
| Current portion of notes payable and other indebtedness | 359 | 356 |
| Total current liabilities | 432,652 | 336,701 |
| Notes payable and other indebtedness, less current portion | 3,918 | 2,698 |
| Other liabilities | 8,970 | 8,414 |
| Total liabilities | 445,540 | 347,813 |
| Commitments and Contingencies (Note G) | | |
| STOCKHOLDERS EQUITY | | |
| Preferred stock, \$.001 par value authorized 5,000,000 shares; issued and outstanding zero shares | | |
| Common stock, \$.001 par value authorized 260,000,000 shares; issued and outstanding 167,134,898 and 170,681,605 shares | 167 | 171 |
| Capital surplus | 946,913 | 875,843 |
| Deferred compensation | | (86,178) |
| Accumulated other comprehensive income | 37,981 | 24,987 |
| Retained earnings | 1,642 | 156,050 |
| Total stockholders equity | 986,703 | 970,873 |
| Total liabilities and stockholders equity | \$ 1,432,243 | \$ 1,318,686 |

The accompanying Notes to Condensed Consolidated Financial Statements are

an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net service revenues | \$ 1,027,563 | \$ 867,015 | \$ 2,953,312 | \$ 2,453,674 |
| Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees | 595,566 | 511,005 | 1,710,109 | 1,447,549 |
| Gross margin | 431,997 | 356,010 | 1,243,203 | 1,006,125 |
| Selling, general and administrative expenses | 316,732 | 253,445 | 912,387 | 727,831 |
| Amortization of intangible assets | 231 | 93 | 605 | 241 |
| Interest income, net | (4,874) | (3,169) | (12,500) | (7,148) |
| Income before income taxes | 119,908 | 105,641 | 342,711 | 285,201 |
| Provision for income taxes | 46,261 | 41,202 | 134,906 | 111,940 |
| Net income | \$ 73,647 | \$ 64,439 | \$ 207,805 | \$ 173,261 |
| Basic net income per share | \$.45 | \$.39 | \$ 1.25 | \$ 1.03 |
| Diluted net income per share | \$.43 | \$.37 | \$ 1.20 | \$.99 |
| Shares: | | | | |
| Basic | 165,177 | 166,553 | 166,781 | 167,900 |
| Diluted | 169,983 | 174,219 | 172,666 | 174,664 |
| Cash dividends declared per share | \$.08 | \$.07 | \$.24 | \$.21 |

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(in thousands, except per share amounts)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2006 | 2005 |
| COMMON STOCK SHARES: | | |
| Balance at beginning of period | 170,682 | 172,981 |
| Net issuances of restricted stock | 1,204 | 910 |
| Repurchases of common stock | (9,132) | (7,597) |
| Exercises of stock options | 4,381 | 3,025 |
| Balance at end of period | 167,135 | 169,319 |
| COMMON STOCK PAR VALUE: | | |
| Balance at beginning of period | \$ 171 | \$ 173 |
| Net issuances of restricted stock | 1 | 1 |
| Repurchases of common stock | (9) | (8) |
| Exercises of stock options | 4 | 3 |
| Balance at end of period | \$ 167 | \$ 169 |
| CAPITAL SURPLUS: | | |
| Balance at beginning of period | \$ 875,843 | \$ 702,331 |
| Net issuances, and other changes to, restricted stock excess over par value | | 29,040 |
| Net issuances of restricted stock at par value | (1) | |
| Net issuances of stock units | | 705 |
| Stock-based compensation expense restricted stock and stock units | 29,943 | |
| Stock-based compensation expense stock options | 13,848 | |
| Exercises of stock options excess over par value | 70,131 | 44,163 |
| Tax impact of equity incentive plans | 43,327 | 20,623 |
| Reclassification of deferred compensation | (86,178) | |
| Balance at end of period | \$ 946,913 | \$ 796,862 |
| DEFERRED COMPENSATION: | | |
| Balance at beginning of period | \$ (86,178) | \$ (63,944) |
| Net issuances of, and other changes to, restricted stock | | (29,041) |
| Net issuances of stock units | | (705) |
| Amortization of deferred compensation | | 19,472 |
| Reclassification of deferred compensation | 86,178 | |
| Balance at end of period | \$ | \$ (74,218) |
| ACCUMULATED OTHER COMPREHENSIVE INCOME: | | |
| Balance at beginning of period | \$ 24,987 | \$ 32,570 |
| Translation adjustments, net of tax | 12,994 | (4,299) |
| Balance at end of period | \$ 37,981 | \$ 28,271 |
| RETAINED EARNINGS: | | |
| Balance at beginning of period | \$ 156,050 | \$ 240,740 |

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| | | |
|--|-----------|------------|
| Repurchases of common stock excess over par value | (321,291) | (214,647) |
| Cash dividends (\$.24 per share and \$.21 per share) | (40,922) | (35,801) |
| Net income | 207,805 | 173,261 |
| Balance at end of period | \$ 1,642 | \$ 163,553 |

The accompanying Notes to Condensed Consolidated Financial Statements are

an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 207,805 | \$ 173,261 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangible assets | 605 | 241 |
| Depreciation expense | 44,970 | 37,439 |
| Stock-based compensation expense restricted stock and stock units | 29,943 | 19,472 |
| Stock-based compensation expense stock options | 13,848 | |
| Tax impact of equity incentive plans | | 20,623 |
| Excess tax benefits from stock-based compensation | (33,070) | |
| Provision for deferred income taxes | (6,040) | (7,766) |
| Provision for doubtful accounts | 6,459 | 7,985 |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Increase in accounts receivable | (83,575) | (78,031) |
| Increase in accounts payable, accrued expenses, accrued payroll costs and retirement obligations | 60,314 | 69,723 |
| Increase in income taxes payable | 64,636 | 3,104 |
| Change in other assets, net of change in other liabilities | (9,101) | (8,467) |
| Net cash flows provided by operating activities | 296,794 | 237,584 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of goodwill and other intangible assets and other assets | (5,856) | (4,474) |
| Capital expenditures | (64,137) | (41,006) |
| Increase in trusts for employee benefits and retirement plans | (2,219) | (1,961) |
| Purchases of marketable securities | | (602) |
| Proceeds from sales and maturities of marketable securities | | 92,128 |
| Net cash flows (used in) provided by investing activities | (72,212) | 44,085 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchases of common stock | (321,300) | (214,655) |
| Cash dividends paid | (40,922) | (35,801) |
| (Decrease) increase in notes payable and other indebtedness | (331) | 724 |
| Excess tax benefits from stock-based compensation | 33,070 | |
| Proceeds from exercises of stock options | 70,135 | 44,166 |
| Net cash flows used in financing activities | (259,348) | (205,566) |
| Effect of exchange rate changes on cash and cash equivalents | 8,065 | (660) |
| Net (decrease) increase in cash and cash equivalents | (26,701) | 75,443 |
| Cash and cash equivalents at beginning of period | 458,358 | 345,283 |
| Cash and cash equivalents at end of period | \$ 431,657 | \$ |