

HALF ROBERT INTERNATIONAL INC /DE/  
Form 10-Q  
May 03, 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 MARCH 31, 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 April 30, 2018:  
123,562,570 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)

| March 31,<br>2018  | December 31, 2017 |             |             |
|--|-------------------|-------------|-------------|
| <b>ASSETS</b>  |                   |             |             |
| Cash and cash equivalents  |                   | \$291,987   | \$294,753   |
| Accounts receivable, less allowances of \$22,375 and \$33,181  |                   | 784,889     | 732,405     |
| Other current assets   |                   | 391,580     | 404,711     |
| Total current assets   |                   | 1,468,456   | 1,431,869   |
| Goodwill   |                   | 210,832     | 210,885     |
| Other intangible assets, net   |                   | 4,553       | 4,946       |
| Property and equipment, net  |                   | 136,837     | 144,887     |
| Deferred income taxes  |                   | 73,182      | 74,867      |
| Total assets   |                   | \$1,893,860 | \$1,867,454 |
| <b>LIABILITIES</b>   |                   |             |             |
| Accounts payable and accrued expenses  |                   | \$146,110   | \$126,937   |
| Accrued payroll and benefit costs  |                   | 608,417     | 612,899     |
| Income taxes payable   |                   | 9,726       | 7,877       |
| Current portion of notes payable and other indebtedness  |                   | 187         | 183         |
| Total current liabilities  |                   | 764,440     | 747,896     |
| Notes payable and other indebtedness, less current portion   |                   | 608         | 657         |
| Other liabilities  |                   | 14,015      | 13,636      |
| Total liabilities  |                   | 779,063     | 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 and outstanding 123,562,571 shares and 124,261,458 shares |                   | 124         | 124         |
| Capital surplus  |                   | 1,075,156   | 1,064,601   |
| Accumulated other comprehensive income   |                   | 9,015       | 3,507       |
| Retained earnings  |                   | 30,502      | 37,033      |
| Total stockholders' equity   |                   | 1,114,797   | 1,105,265   |
| Total liabilities and stockholders' equity   |                   | \$1,893,860 | \$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<br>March 31, |              |
|---|---------------------------------|--------------|
|   | 2018                            | 2017         |
| Net service revenues  | \$ 1,395,333                    | \$ 1,287,370 |
| Direct costs of services, consisting of payroll, payroll taxes, benefit costs and reimbursable expenses | 822,967                         | 761,542      |
| Gross margin  | 572,366                         | 525,828      |
| Selling, general and administrative expenses  | 437,999                         | 400,249      |
| Amortization of intangible assets   | 463                             | 301          |
| Interest income, net  | (735)                           | (223)        |
| Income before income taxes  | 134,639                         | 125,501      |
| Provision for income taxes  | 38,472                          | 46,980       |
| Net income  | \$96,167                        | \$78,521     |
| Net income per share:   |                                 |              |
| Basic   | \$.79                           | \$.63        |
| Diluted   | \$.78                           | \$.62        |
| Shares:   |                                 |              |
| Basic   | 121,934                         | 125,537      |
| Diluted   | 122,887                         | 126,418      |
| Cash dividends declared per share   | \$.28                           | \$.24        |

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<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2018                               | 2017     |
| COMPREHENSIVE INCOME:                                |                                    |          |
| Net income   | \$96,167                           | \$78,521 |
| Foreign currency translation adjustments, net of tax | 5,508                              | 4,864    |
| Total comprehensive income                           | \$101,675                          | \$83,385 |

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)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2018                            | 2017        |
| <b>COMMON STOCK—SHARES:</b>                           |                                 |             |
| Balance at beginning of period                        | 124,261                         | 127,797     |
| Net issuances of restricted stock                     | 514                             | 807         |
| Repurchases of common stock                           | (1,212)                         | (1,425)     |
| Balance at end of period                              | 123,563                         | 127,179     |
| <b>COMMON STOCK—PAR VALUE:</b>                        |                                 |             |
| Balance at beginning of period                        | \$124                           | \$128       |
| Net issuances of restricted stock                     | 1                               | 1           |
| Repurchases of common stock                           | (1)                             | (2)         |
| Balance at end of period                              | \$124                           | \$127       |
| <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                      | 10,556                          | 9,857       |
| Balance at end of period                              | \$1,075,156                     | \$1,032,267 |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):</b> |                                 |             |
| Balance at beginning of period                        | \$3,507                         | \$(20,502)  |
| Foreign currency translation adjustments, net of tax  | 5,508                           | 4,864       |
| Balance at end of period                              | \$9,015                         | \$(15,638)  |
| <b>RETAINED EARNINGS:</b>                             |                                 |             |
| Balance at beginning of period                        | \$37,033                        | \$84,562    |
| Net income  | 96,167                          | 78,521      |
| Repurchases of common stock—excess over par value     | (68,488)                        | (68,295)    |
| Cash dividends (\$.28 per share and \$.24 per share)  | (34,210)                        | (30,601)    |
| Balance at end of period                              | \$30,502                        | \$64,187    |

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)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2018                            | 2017       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                 |            |
| Net income  | \$96,167                        | \$78,521   |
| Adjustments to reconcile net income to net cash provided by operating activities:               |                                 |            |
| Amortization of intangible assets   | 463                             | 301        |
| Depreciation expense  | 16,253                          | 15,899     |
| Stock-based compensation expense—restricted stock and stock units                               | 10,556                          | 9,857      |
| Deferred income taxes   | 1,695                           | 10,556     |
| Provision for doubtful accounts   | 1,778                           | 1,697      |
| Changes in assets and liabilities:  |                                 |            |
| (Increase) decrease in accounts receivable  | (49,794 )                       | 4,296      |
| Increase (decrease) in accounts payable, accrued expenses, accrued payroll<br>and benefit costs | 13,527                          | (7,498 )   |
| Increase in income taxes payable  | 27,068                          | 27,860     |
| Change in other assets, net of change in other liabilities                                      | (1,495 )                        | (17,989 )  |
| Net cash flows provided by operating activities   | 116,218                         | 123,500    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                 |            |
| Capital expenditures  | (7,965 )                        | (10,335 )  |
| Payments to trusts for employee deferred compensation plans                                     | (10,585 )                       | (4,939 )   |
| Net cash flows used in investing activities   | (18,550 )                       | (15,274 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                 |            |
| Repurchases of common stock   | (68,489 )                       | (80,687 )  |
| Cash dividends paid   | (34,919 )                       | (30,597 )  |
| Payments for notes payable and other indebtedness   | (44 )                           | (41 )      |
| Net cash flows used in financing activities   | (103,452 )                      | (111,325 ) |
| Effect of exchange rate changes on cash and cash equivalents                                    | 3,018                           | 3,041      |
| Net decrease in cash and cash equivalents   | (2,766 )                        | (58 )      |
| Cash and cash equivalents at beginning of period  | 294,753                         | 260,201    |
| Cash and cash equivalents at end of period  | \$291,987                       | \$260,143  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                                       |                                 |            |
| Non-cash items:   |                                 |            |
| Stock repurchases awaiting settlement   | \$—                             | \$2,298    |

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)  
March 31, 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 interactive, design, 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 March 31, 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 months ended March 31, 2018 and 2017, are reflected in the following table (in thousands):

Three Months  
Ended  
March 31,



|                   | 2018      | 2017      |
|-------------------|-----------|-----------|
| Advertising costs | \$ 13,081 | \$ 11,471 |

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ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 March 31, 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):

|                                       | March 31, 2018                       |                                 |          |
|---------------------------------------|--------------------------------------|---------------------------------|----------|
|                                       | Balances                             |                                 |          |
| As Reported                           | Without Adoption of Revenue Guidance | Effect of Change Higher (Lower) |          |
| <b>Assets</b>                         |                                      |                                 |          |
| Accounts receivable, net              | \$784,889                            | \$774,281                       | \$10,608 |
| <b>Liabilities</b>                    |                                      |                                 |          |
| Accounts payable and accrued expenses | \$146,110                            | \$135,502                       | \$10,608 |

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

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 must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
March 31, 2018

comparative period presented in the financial statements. While the impact of the adoption of this guidance will include the recognition of right-of-use assets and lease liabilities on the Company's statement of financial position, the Company is in the process of evaluating the impact of adoption of this guidance on its systems, processes, and controls.

**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 beginning after December 31, 2019, although early adoption is permitted. The Company believes the adoption of this guidance will not have a material impact on its 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.

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 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.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 March 31, 2018

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

|   | Three Months Ended |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2018               | 2017        |
| Accountemps                                 | \$471,589          | \$436,539   |
| OfficeTeam                                  | 261,152            | 236,179     |
| Robert Half Technology                      | 160,062            | 157,439     |
| Robert Half Management Resources            | 173,485            | 157,449     |
| Temporary and consulting staffing revenues  | 1,066,288          | 987,606     |
| Permanent placement staffing revenues       | 121,400            | 103,633     |
| Risk consulting and internal audit revenues | 207,645            | 196,131     |
| Net service revenues                        | \$1,395,333        | \$1,287,370 |

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 the quarter ended March 31, 2018, aggregate transaction price allocated to the performance obligations that are unsatisfied for contracts with an expected duration of greater than one year was \$84.1 million. Of this amount, substantially all is expected to be recognized within the next twelve months. There were no revenues recognized in the quarter ended March 31, 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 March 31, 2018 were not material.

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 March 31, 2018 (in thousands):

|  | March 31,<br>2018 |
|--|-------------------|
| Balance at beginning of period                                 | \$ 9,003          |
| Payments in advance of satisfaction of performance obligations | 5,689             |
| Revenue recognized   | (3,842 )          |
| Other, including translation adjustments                       | (1,977 )          |
| Balance at end of period                                       | \$ 8,873          |

Note D—Other Current Assets

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

|   | March 31,<br>2018 | December<br>31, 2017 |
|---|-------------------|----------------------|
| Deposits in trusts for employee deferred compensation plans | \$302,964         | \$292,326            |
| Other   | 88,616            | 112,385              |
| Other current assets  | \$391,580         | \$404,711            |



ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 March 31, 2018

Note E—Property and Equipment, Net

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

|                              | March 31,<br>2018 | December<br>31, 2017 |
|------------------------------|-------------------|----------------------|
| Computer hardware            | \$ 171,447        | \$ 171,515           |
| Computer software            | 377,991           | 376,761              |
| Furniture and equipment      | 102,919           | 102,424              |
| Leasehold improvements       | 150,181           | 148,764              |
| Other                        | 10,241            | 9,907                |
| Property and equipment, cost | 812,779           | 809,371              |
| Accumulated depreciation     | (675,942 )        | (664,484 )           |
| Property and equipment, net  | \$ 136,837        | \$ 144,887           |

Note F—Accrued Payroll and Benefit Costs

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

|                                      | March<br>31,<br>2018 | December<br>31, 2017 |
|--------------------------------------|----------------------|----------------------|
| Payroll and benefits                 | \$ 239,524           | \$ 256,804           |
| Employee deferred compensation plans | 310,164              | 312,429              |
| Workers' compensation                | 17,543               | 17,092               |
| Payroll taxes                        | 41,186               | 26,574               |
| Accrued payroll and benefit costs    | \$ 608,417           | \$ 612,899           |

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

|   | March<br>31,<br>2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
| Deferred compensation plan and other benefits related to the Company's<br>Chief Executive Officer | \$ 86,283            | \$ 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 alleges that a putative class of current and former employees of the Company working in California since March 13, 2011 were denied compensation for the time they spent interviewing with clients of the Company as well as performing activities related to the interview process. Rodriguez seeks recovery on her own behalf and on behalf of the putative class in an unspecified amount for this allegedly unpaid compensation. Rodriguez also seeks recovery of an unspecified amount for the alleged failure of the Company to provide her and the putative class with accurate wage statements. Rodriguez also seeks an unspecified amount of other damages, attorneys' fees, and statutory penalties, including but not limited to statutory penalties on behalf of herself and other allegedly "aggrieved employees" as defined by California's Labor Code Private Attorney General Act ("PAGA"). On October 10, 2014, the Court granted a motion by the Company to compel all of Rodriguez's claims, except the PAGA claim, to individual arbitration. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding and, accordingly, no amounts have been provided in the Company's Financial Statements. The Company believes it has meritorious defenses to the allegations and the Company intends to continue to vigorously defend against the litigation.



On March 23, 2015, Plaintiff Jessica Gentry, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, filed a complaint against the Company in the Superior Court of California, San Francisco County, which

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)  
 March 31, 2018

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.

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

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

Note H— Stockholders' Equity

Stock Repurchase Program. As of March 31, 2018, the Company is authorized to repurchase, from time to time, up to 11.3 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 three months ended March 31, 2018 and 2017, are reflected in the following table (in thousands):

|                                      | Three Months<br>Ended<br>March 31,<br>2018 2017 |          |
|--------------------------------------|---|----------|
| Common stock repurchased (in shares) | 1,065   | 1,121    |
| Common stock repurchased             | \$60,033  | \$53,586 |

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 three months ended March 31, 2018 and 2017, are reflected in the following table (in thousands):

|   | Three Months<br>Ended<br>March 31,<br>2018 2017 |          |
|---|---|----------|
| Repurchases related to employee stock plans (in shares) | 147   | 304      |
| Repurchases related to employee stock plans             | \$8,456   | \$14,711 |

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 three months ended March 31, 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.

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Note I—Net Income Per Share

The calculation of net income per share for the three months ended March 31, 2018 and 2017 is reflected in the following table (in thousands, except per share amounts):

|  | Three Months<br>Ended<br>March 31,<br>2018    2017 |          |
|--|--|----------|
| Net income                                 | \$96,167   | \$78,521 |
| Basic:                                     |  |          |
| Weighted average shares                    | 121,934  | 125,537  |
| Diluted:                                   |  |          |
| Weighted average shares                    | 121,934  | 125,537  |
| Dilutive effect of potential common shares | 953  | 881      |
| Diluted weighted average shares            | 122,887  | 126,418  |
| Net income per share:                      |  |          |
| Basic                                      | \$.79  | \$.63    |
| Diluted                                    | \$.78  | \$.62    |

Note J—Business Segments

The Company, which aggregates its operating segments based on the nature of services, has three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. The temporary and consultant 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.

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The following table provides a reconciliation of revenue and operating income by reportable segment to consolidated results for the three months ended March 31, 2018 and 2017 (in thousands):

|   | Three Months Ended |              |
|---|--------------------|--------------|
|   | March 31,          |              |
|   | 2018               | 2017         |
| Net service revenues                        |                    |              |
| Temporary and consultant staffing           | \$ 1,066,288       | \$ 987,606   |
| Permanent placement staffing                | 121,400            | 103,633      |
| Risk consulting and internal audit services | 207,645            | 196,131      |
|   | \$ 1,395,333       | \$ 1,287,370 |
| Operating income                            |                    |              |
| Temporary and consultant staffing           | \$ 96,723          | \$ 90,371    |
| Permanent placement staffing                | 22,379             | 18,302       |
| Risk consulting and internal audit services | 15,265             | 16,906       |
|   | 134,367            | 125,579      |
| Amortization of intangible assets           | 463                | 301          |
| Interest income, net                        | (735 )             | (223 )       |
| Income before income taxes                  | \$ 134,639         | \$ 125,501   |

Note K—Income Taxes

The provision for income taxes was 28.6% and 37.4% for the three months ended March 31, 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, 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 three months ended March 31, 2018, new guidance was released and as a result the Company recorded a charge of \$3 million 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 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.

Note L—Subsequent Events

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

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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.

On May 1, 2018, the Company announced the following:

Quarterly dividend per share \$.28

Declaration date May 1, 2018

Record date May 25, 2018

Payment date June 15, 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 three months ended March 31, 2018 were positively impacted by a growing global economy. During the first quarter of 2018, net service revenues were \$1.40 billion, an increase of 8% from the prior year. Net income increased 22% to \$96 million and diluted net income per share increased 26% to \$.78. 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 17% for the first quarter of 2018 compared to the first quarter of 2017.

We believe that the Company is well positioned in the current macroeconomic environment. The United States economic backdrop throughout the first quarter of 2018 was improved for the Company as real gross domestic product (GDP) grew 2.3%, while the unemployment rate remained unchanged at 4.1% in December 2017 and March 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, a sign employers are building flexible staffing options into their human resource plans with increasing frequency.

Protiviti continues to see solid growth in its business performance improvement practice area. Protiviti also is expanding its solutions in areas such as data and analytics, and cybersecurity.

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 quarter of 2018, we added headcount in our temporary and consultant staffing and permanent placement staffing services, while risk consulting and internal audit headcount remained essentially flat 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 through the second quarter of 2018.

Capital expenditures for the three months ended March 31, 2018 totaled \$8 million, approximately 27% of which represented investments in software initiatives and technology infrastructure, both of which are important to the Company's future growth opportunities. While upgrades to enterprise resource planning and project management applications were completed in 2017, we continue 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 \$45 million to \$55 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 material changes to the Company's accounting policies or estimates for the three months ended March 31, 2018.

#### Recent Accounting Pronouncements

See Note B—"New Accounting Pronouncements" to the Company's unaudited Condensed Consolidated Financial Statements included under Part I—Item 1 of the 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 quarter ended March 31, 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 326 offices in 42 states, the District of Columbia and 17 foreign countries, while Protiviti has 56 offices in 23 states and 11 foreign countries.

#### Non-GAAP Financial Measures

The financial results of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the SEC. To help readers understand the Company's financial performance, the Company supplements its GAAP financial results with revenue growth rates derived from non-GAAP revenue amounts.

Variations in the Company's financial results include the impact of changes in foreign currency exchange rates and billing days. The Company provides "same billing days and constant currency" revenue growth calculations to remove the impact of these items. These calculations show the year-over-year revenue growth rates for the Company's reportable segments on both a reported basis and also on a same day, constant-currency basis for global, U.S. and international operations. The Company has provided this data because management believes it better reflects the Company's actual revenue growth rates and aids in evaluating revenue trends over time. The Company expresses year-over-year revenue changes as calculated percentages using the same number of billing days and constant currency exchange rates.

In order to calculate constant currency revenue growth rates, as reported amounts are retranslated using foreign currency exchange rates from the prior year's comparable period. Management then calculates a global,

weighted-average number of billing days for each reporting period based upon input from all countries and all lines of business. In order to remove the fluctuations caused by comparable periods having different billing days, the Company calculates same billing day revenue

growth rates by dividing each comparative period's reported revenues by the calculated number of billing days for that period to arrive at a per billing day amount. Same billing day growth rates are then calculated based upon the per billing day amounts. The term "same billing days and constant currency" means that the impact of different billing days has been removed from the constant currency calculation.

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

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

Three Months Ended March 31, 2018 and 2017

Revenues. The Company's revenues were \$1.40 billion for the three months ended March 31, 2018, increasing by 8.4% compared to \$1.29 billion for the three months ended March 31, 2017. Revenues from foreign operations represented 24% of total revenues for the three months ended March 31, 2018, up from 20% of total revenues for the three months ended March 31, 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 March 31, 2018, revenue for temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services 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 \$1.07 billion for the three months ended March 31, 2018, increasing by 8.0% compared to revenues of \$988 million for the three months ended March 31, 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 a same-day, constant-currency basis, temporary and consultant staffing revenues increased 6.2% for the first quarter of 2018 compared to the first quarter of 2017, due primarily to a 2.5% 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 first quarter of 2018 increased 3.4% on an as reported basis and 3.9% on a same-day basis, compared to the first quarter of 2017. For the Company's international operations, 2018 first quarter revenues increased 26.0% on an as reported basis and 15.5% on a same-day, constant-currency basis, compared to the first quarter of 2017.

Permanent placement staffing revenues were \$121 million for the three months ended March 31, 2018, increasing by 17.1% compared to revenues of \$104 million for the three months ended March 31, 2017. Key drivers of permanent placement staffing revenues consist of the number of candidate placements and average fees earned per placement. Both the number of placements and average fees per placement were up for the first quarter of 2018 compared to the first quarter of 2017. In the U.S., revenues for the first quarter of 2018 increased 14.2% on an as reported basis and 14.8% on a same-day basis, compared to the first quarter of 2017. For the Company's international operations, revenues for the first quarter of 2018 increased 23.6% on an as reported basis and 16.0% on a same-day, constant-currency basis, compared to the first quarter of 2017. Historically, demand for permanent placement staffing is even more sensitive to economic and labor market conditions than demand for temporary and consultant staffing and this is expected to continue.

Risk consulting and internal audit services revenues were \$208 million for the three months ended March 31, 2018, increasing by 5.9% compared to revenues of \$196 million for the three months ended March 31, 2017. Key drivers of risk consulting and internal audit services revenues are the billable hours worked by consultants on client engagements and average hourly bill rates. On a same-day, constant-currency basis, risk consulting and internal audit services revenues increased 4.7% for the first quarter of 2018 compared to the first quarter of 2017, due primarily to an increase in billable hours, partially offset by a decrease in billing rates. In the U.S., revenues in the first quarter of 2018 increased 1.0% on an as reported basis and 1.5% on a same-day basis, compared to the first quarter of 2017.

Contributing to the U.S. increase were services related to business performance improvement. The Company's risk consulting and internal audit services revenues from international operations increased 32.2% on an as reported basis and 22.0% on a same-day, constant-currency basis for the first quarter of 2018 compared to the first quarter of 2017.

A reconciliation of the non-GAAP year-over-year revenue growth rates to the as reported year-over-year revenue growth rates for the three months ended March 31, 2018, is presented in the following table:

|   | Global | United States | International |  |  |
|---|--------|---------------|---------------|--|--|
| Temporary and consultant staffing           |        |               |               |  |  |
| As Reported                                 | 8.0 %  | 3.4 %         | 26.0 %        |  |  |
| Billing Days Impact                         | 0.8 %  | 0.5 %         | 2.3 %         |  |  |
| Currency Impact                             | -2.6 % | —             | -12.8 %       |  |  |
| Same Billing Days and Constant Currency     | 6.2 %  | 3.9 %         | 15.5 %        |  |  |
| Permanent placement staffing                |        |               |               |  |  |
| As Reported                                 | 17.1 % | 14.2 %        | 23.6 %        |  |  |
| Billing Days Impact                         | 0.9 %  | 0.6 %         | 2.2 %         |  |  |
| Currency Impact                             | -3.0 % | —             | -9.8 %        |  |  |
| Same Billing Days and Constant Currency     | 15.0 % | 14.8 %        | 16.0 %        |  |  |
| Risk consulting and internal audit services |        |               |               |  |  |
| As Reported                                 | 5.9 %  | 1.0 %         | 32.2 %        |  |  |
| Billing Days Impact                         | 0.7 %  | 0.5 %         | 2.3 %         |  |  |
| Currency Impact                             | -1.9 % | —             | -12.5 %       |  |  |
| Same Billing Days and Constant Currency     | 4.7 %  | 1.5 %         | 22.0 %        |  |  |

Gross Margin. The Company's gross margin dollars were \$572 million for the three months ended March 31, 2018, increasing by 8.9% compared to \$526 million for the three months ended March 31, 2017. Contributing factors for each reportable segment are discussed below in further detail.

Gross margin dollars for temporary and consultant staffing represent revenues less direct costs of services, which consist of payroll, payroll taxes and benefit costs for temporary employees, and reimbursable expenses. The key drivers of gross margin are: i) pay-bill spreads, which represent the differential between wages paid to temporary employees and amounts billed to clients; ii) fringe costs, which are primarily composed of payroll taxes and benefit costs for temporary and consultant staffing employees; and iii) conversion revenues, which are earned when a temporary position converts to a permanent position with the Company's client. Gross margin dollars for the Company's temporary and consultant staffing division were \$396 million for the three months ended March 31, 2018, increasing 7.3% compared to \$369 million for the three months ended March 31, 2017. As a percentage of revenues, gross margin for temporary and consultant staffing was 37.2% in the first quarter of 2018, down from 37.4% in the first quarter of 2017. This year-over-year decline in gross margin percentage is primarily attributable to higher fringe costs partially offset by higher conversion revenues.

Gross margin dollars for permanent placement staffing represent revenues less reimbursable expenses. Gross margin dollars for the Company's permanent placement staffing division were \$121 million for the three months ended March 31, 2018, increasing 17.1% from \$104 million for the three months ended March 31, 2017. Because reimbursable expenses for permanent placement staffing are de minimis, gross margin dollars are substantially explained by revenues previously discussed.

Gross margin dollars for risk consulting and internal audit services represent revenues less direct costs of services, which consist primarily of professional staff payroll, payroll taxes, benefit costs and reimbursable expenses. The primary drivers of risk consulting and internal audit services gross margin are: i) the relative composition of and number of professional staff and their respective pay and bill rates; and ii) staff utilization, which is the relationship of time spent on client engagements in proportion to the total time available for the Company's risk consulting and internal audit services staff. Gross margin dollars for the Company's risk consulting and internal audit division were \$55 million for the three months ended March 31, 2018, increasing 3.5% compared to \$53 million for the three months ended March 31, 2017. As a percentage of revenues, gross margin for risk consulting and internal audit services in the first quarter of 2018 was 26.4%, down from 27.0% in the first quarter of 2017. The decline in the first quarter of 2018 gross margin compared to the first quarter of 2017 was primarily due to an increase in pay rates for professional staff.

Selling, General and Administrative Expenses. The Company's selling, general and administrative expenses consist primarily of staff compensation, advertising, depreciation and occupancy costs. The Company's selling, general and administrative expenses were \$438 million for the three months ended March 31, 2018, increasing 9.4% from \$400 million for

the three months ended March 31, 2017. As a percentage of revenues, the Company's selling, general and administrative expenses were 31.4% for the first quarter of 2018, up from 31.1% for the first quarter of 2017. Contributing factors for each reportable segment are discussed below in further detail.

Selling, general and administrative expenses for the Company's temporary and consultant staffing division were \$299 million for the three months ended March 31, 2018, increasing 7.4% from \$279 million for the three months ended March 31, 2017. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing were 28.1% in the first quarter of 2018, slightly down from 28.2% in the first quarter of 2017. Selling, general and administrative expenses for the Company's permanent placement staffing division were \$99 million for the three months ended March 31, 2018, increasing by 16.0% compared to \$85 million for the three months ended March 31, 2017. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing were 81.4% in the first quarter of 2018, down from 82.1% in the first quarter of 2017 due primarily to positive operating leverage resulting from increased revenues.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$40 million for the three months ended March 31, 2018, increasing by 9.6% compared to \$36 million for the three months ended March 31, 2017. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 19.1% in the first quarter of 2018, up from 18.4% in the first quarter of 2017 due primarily to increases in fixed overhead.

Operating Income. The Company's total operating income was \$134 million, or 9.6% of revenues, for the three months ended March 31, 2018, up from \$126 million, or 9.8% of revenues, for the three months ended March 31, 2017. For the Company's temporary and consultant staffing division, operating income was \$97 million, or 9.1% of applicable revenues, up from \$90 million, or 9.2% of applicable revenues, in the first quarter of 2017. For the Company's permanent placement staffing division, operating income was \$22 million, or 18.4% of applicable revenues, up 22.3% from an operating income of \$19 million, or 17.7% of applicable revenues, in the first quarter of 2017. For the Company's risk consulting and internal audit services division, operating income was \$15 million, or 7.4% of applicable revenues, down from an operating income of \$17 million, or 8.6% of applicable revenues, in the first quarter of 2017.

Provision for income taxes. The provision for income taxes was 28.6% and 37.4% for the three months ended March 31, 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.

#### Liquidity and Capital Resources

The change in the Company's liquidity during the three months ended March 31, 2018 and 2017 is primarily the net effect of funds generated by operations and the funds used for capital expenditures, payment to trusts for employee deferred compensation plans, repurchases of common stock and payment of dividends.

Cash and cash equivalents were \$292 million and \$260 million at March 31, 2018 and 2017, respectively. Operating activities provided \$116 million during the three months ended March 31, 2018, which was offset by \$19 million and \$103 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$124 million during the three months ended March 31, 2017, which was offset by \$15 million and \$111 million of net cash used in investing activities and financing activities, respectively.

Operating activities—Net cash provided by operating activities for the three months ended March 31, 2018, was composed of net income of \$96 million, adjusted upward for non-cash items of \$31 million, offset by net cash used in changes in working capital of \$11 million. Net cash provided by operating activities for the three months ended March 31, 2017, was composed of net income of \$79 million, adjusted upward for non-cash items of \$38 million, and cash provided by changes in working capital of \$7 million.

Investing activities—Net cash used in investing activities for the three months ended March 31, 2018, was \$19 million. This was primarily composed of capital expenditures of \$8 million and deposits to trusts for employee deferred compensation plans of \$11 million. Net cash used in investing activities for the three months ended March 31, 2017, was \$15 million. This





was composed of capital expenditures of \$10 million and deposits to trusts for employee deferred compensation plans of \$5 million.

Financing activities—Net cash used in financing activities for the three months ended March 31, 2018, was \$103 million. This primarily included repurchases of \$68 million in common stock and \$35 million in cash dividends paid to stockholders. Net cash used in financing activities for the three months ended March 31, 2017, was \$111 million. This included repurchases of \$81 million in common stock and \$30 million in cash dividends to stockholders.

As of March 31, 2018, the Company is authorized to repurchase, from time to time, up to 11.3 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the three months ended March 31, 2018 and 2017, the Company repurchased 1.1 million shares, at a cost of \$60 million, and 1.1 million shares of common stock, at a cost of \$54 million, on the open market, respectively. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. During the three months ended March 31, 2018 and 2017, such repurchases totaled 0.1 million shares, at a cost of \$8 million, and 0.3 million shares, at a cost of \$15 million, respectively. Repurchases of shares have been funded with cash generated from operations.

The Company's working capital at March 31, 2018, included \$292 million in cash and cash equivalents. The Company expects that internally generated cash will be sufficient to support the working capital needs of the Company, the Company's fixed payments, dividends, and other obligations on both a short-term and long-term basis.

On May 1, 2018, the Company announced a quarterly dividend of \$.28 per share to be paid to all shareholders of record as of May 25, 2018. The dividend will be paid on June 15, 2018.

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

Because a portion of the Company's net revenues are derived from its operations outside the U.S. and are denominated in local currencies, the Company is exposed to the impact of foreign currency fluctuations. The Company's exposure to foreign currency exchange rates relates primarily to the Company's foreign subsidiaries. Exchange rates impact the U.S. dollar value of the Company's reported revenues, expenses, earnings, assets and liabilities.

For the three months ended March 31, 2018, approximately 24% of the Company's revenues were generated outside of the United States. These operations transact business in their functional currency, which is the same as their local currency. As a result, fluctuations in the value of foreign currencies against the U.S. dollar, particularly the Canadian dollar, British pound, Euro, and Australian dollar, have an impact on the Company's reported results. Under GAAP, revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Consequently, as the value of the U.S. dollar changes relative to the currencies of the Company's non-U.S. markets, the Company's reported results vary.

During the first three months of 2018, the U.S. dollar fluctuated, but generally weakened, against the primary currencies in which the Company conducts business, compared to one year ago. Currency exchange rates had the effect of increasing reported net service revenues by \$33 million, or 2.5%, in the first quarter of 2018 compared to the same period one year ago. The general weakening of the U.S. dollar also affected the reported level of expenses incurred in our foreign operations. Because substantially all our foreign operations generated revenues and incurred expenses within the same country and currency, the effect of higher reported revenues is largely offset by the increase in reported operating expenses. Reported net income was \$2 million, or 2.6%, higher in the first quarter of 2018 compared to the same period one year ago due to the effect of currency exchange rates.

For the one month ended April 30, 2018, the U.S. dollar has strengthened against the Euro, British Pound, and Australian dollar, but weakened the Canadian Dollar since March 31, 2018. If currency exchange rates were to remain at April 2018 levels throughout the remainder of 2018, the Company's full-year reported revenues would be impacted unfavorably, mostly offset by a favorable impact to operating expenses compared to full year 2017 results. Should current trends continue, the impact to reported net income would be immaterial.

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

shareholders' equity, such

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

ITEM 4. Controls and Procedures

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

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

## PART II—OTHER INFORMATION

## ITEM 1. Legal Proceedings

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.

There have been no material developments with regard to the legal proceedings previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2017.

## ITEM 1A. Risk Factors

There have not been any material changes with regard to the risk factors previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2017.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

|   | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Number of<br>Shares that May<br>Yet Be<br>Purchased<br>Under Publicly<br>Announced<br>Plans (d) |
|---|---|------------------------------------|---|--|
| January 1, 2018 to January 31, 2018     | 31,185                                    | (a) \$ 57.89                       | —   | 12,320,879   |
| February 1, 2018 to February 28, 2018   | 797,388                                   | (b) \$ 55.60                       | 749,674   | 11,571,205   |
| March 1, 2018 to March 31, 2018         | 383,632                                   | (c) \$ 58.26                       | 315,792   | 11,255,413   |
| Total January 1, 2018 to March 31, 2018 | 1,212,205                                 |                                    | 1,065,466   |  |

(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 47,714 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) Includes 67,840 shares repurchased in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of applicable withholding taxes and/or exercise price.

Commencing in October 1997, the Company's Board of Directors has, at various times, authorized the repurchase, from time to time, of the Company's common stock on the open market or in privately negotiated transactions depending on market conditions. Since plan inception, a total of 118,000,000 shares have been authorized for repurchase of which 106,744,587 shares have been repurchased as of March 31, 2018.

## ITEM 3. Defaults Upon Senior Securities

None.

## ITEM 4. Mine Safety Disclosure

Not applicable.

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ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 3.1 Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009.
- 3.2 Amended and Restated By-Laws, incorporated by reference to Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.
- 101.1 Part I, Item 1 of this Form 10-Q formatted in XBRL.

SIGNATURES

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

ROBERT HALF INTERNATIONAL INC.

(Registrant)

/S/ M. KEITH WADDELL

M. Keith Waddell

Vice Chairman, President and Chief Financial Officer

(Principal Financial Officer and

duly authorized signatory)

Date: May 3, 2018