

HALF ROBERT INTERNATIONAL INC /DE/
Form 10-Q
July 29, 2011

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 JUNE 30, 2011

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

94-1648752
(I.R.S. Employer
Identification No.)

2884 Sand Hill Road

Suite 200

Menlo Park, California
(Address of principal executive offices)

94025
(zip-code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of June 30, 2011:

144,874,739 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)

	June 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 261,071	\$ 315,137
Accounts receivable, less allowances of \$20,761 and \$21,569	495,381	423,175
Current deferred income taxes	99,068	92,087
Other current assets	139,590	141,461
Total current assets	995,110	971,860
Goodwill	190,489	189,787
Other intangible assets, net	141	219
Property and equipment, net	107,300	103,651
Deferred and other income taxes	8,741	8,467
Total assets	\$ 1,301,781	\$ 1,273,984
LIABILITIES		
Accounts payable and accrued expenses	\$ 110,973	\$ 93,690
Accrued payroll costs and retirement obligations	323,653	314,647
Income taxes payable	18,483	
Current portion of notes payable and other indebtedness	119	123
Total current liabilities	453,228	408,460
Notes payable and other indebtedness, less current portion	1,600	1,656
Other liabilities	30,323	29,497
Total liabilities	485,151	439,613
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 144,880,976 shares and 146,182,564 shares	145	146
Capital surplus	758,351	787,105
Accumulated other comprehensive income	58,134	47,120
Retained earnings		
Total stockholders equity	816,630	834,371
Total liabilities and stockholders equity	\$ 1,301,781	\$ 1,273,984

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net service revenues	\$ 937,966	\$ 769,090	\$ 1,818,835	\$ 1,506,263
Direct costs of services, consisting of payroll, payroll taxes, insurance costs and reimbursable expenses	565,678	479,232	1,108,458	948,277
Gross margin	372,288	289,858	710,377	557,986
Selling, general and administrative expenses	311,202	267,519	604,888	523,187
Amortization of intangible assets	40	46	79	315
Interest income, net	(238)	(94)	(450)	(168)
Income before income taxes	61,284	22,387	105,860	34,652
Provision for income taxes	24,859	10,206	42,730	13,996
Net income	\$ 36,425	\$ 12,181	\$ 63,130	\$ 20,656
Net income available to common stockholders diluted	\$ 35,890	\$ 11,660	\$ 62,194	\$ 19,286
Net income per share (Note J):				
Basic	\$.25	\$.08	\$.44	\$.13
Diluted	\$.25	\$.08	\$.43	\$.13
Shares:				
Basic	141,286	143,100	141,966	143,667
Diluted	142,585	144,331	143,357	144,999
Cash dividends declared per share	\$.14	\$.13	\$.28	\$.26

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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)

	Six Months Ended June 30,	
	2011	2010
COMMON STOCK SHARES:		
Balance at beginning of period	146,183	148,645
Net issuances of restricted stock	1,265	1,410
Repurchases of common stock	(3,151)	(2,726)
Exercises of stock options	584	247
Balance at end of period	144,881	147,576
COMMON STOCK PAR VALUE:		
Balance at beginning of period	\$ 146	\$ 149
Net issuances of restricted stock	1	1
Repurchases of common stock	(3)	(2)
Exercise of stock options	1	
Balance at end of period	\$ 145	\$ 148
CAPITAL SURPLUS:		
Balance at beginning of period	\$ 787,105	\$ 854,081
Net issuances of restricted stock at par value	(1)	(1)
Repurchases of common stock excess over par value	(28,412)	(55,674)
Cash dividends (\$.28 per share and \$.26 per share)	(40,976)	(34,114)
Stock-based compensation expense	25,447	29,124
Exercises of stock options excess over par value	13,692	5,385
Tax impact of equity incentive plans	1,496	(1,032)
Balance at end of period	\$ 758,351	\$ 797,769
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Balance at beginning of period	\$ 47,120	\$ 45,580
Translation adjustments	11,014	(14,676)
Balance at end of period	\$ 58,134	\$ 30,904
RETAINED EARNINGS:		
Balance at beginning of period	\$	\$
Repurchases of common stock excess over par value	(63,130)	(16,085)
Cash dividends (\$.26 per share)		(4,571)
Net income	63,130	20,656
Balance at end of period	\$	\$

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)

	Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 63,130	\$ 20,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	79	315
Depreciation expense	25,703	28,910
Stock-based compensation expense restricted stock and stock units	25,447	28,969
Stock-based compensation expense stock options		155
Excess tax benefits from stock-based compensation	(944)	(709)
Provision for deferred income taxes	(6,781)	(7,182)
Provision for doubtful accounts receivable	2,309	2,101
Changes in assets and liabilities:		
Increase in accounts receivable	(65,517)	(35,275)
Increase (decrease) in accounts payable, accrued expenses, accrued payroll costs and retirement obligations	17,479	(1,555)
Increase in income taxes payable	28,770	7,899
Change in other assets, net of change in other liabilities	(1,793)	6,700
Net cash flows provided by operating activities	87,882	50,984
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(28,375)	(14,412)
(Increase) decrease in trusts for employee benefits and retirement plans	(2,785)	609
Net cash flows used in investing activities	(31,160)	(13,803)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases of common stock	(91,545)	(71,761)
Cash dividends paid	(40,307)	(38,634)
Decrease in notes payable and other indebtedness	(60)	(55)
Excess tax benefits from stock-based compensation	944	709
Proceeds from exercises of stock options	13,693	5,385
Net cash flows used in financing activities	(117,275)	(104,356)
Effect of exchange rate changes on cash and cash equivalents	6,487	(8,575)
Net decrease in cash and cash equivalents	(54,066)	(75,750)
Cash and cash equivalents at beginning of period	315,137	365,794
Cash and cash equivalents at end of period	\$ 261,071	\$ 290,044
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 273	\$ 301
Income taxes, net of refunds	\$ 19,251	\$ 12,840

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

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 project professionals in the fields of accounting and finance. *OfficeTeam* specializes in highly skilled temporary administrative support personnel. *Robert Half Technology* provides information technology professionals. *Robert Half Legal* provides temporary, project, and full-time staffing of attorneys and specialized support personnel within law firms and corporate legal departments. *The Creative Group* provides project staffing in the advertising, marketing, and web design fields. *Protiviti* provides business consulting and internal audit services, 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, 2010, 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 June 30, 2011, 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.

Advertising Costs. The Company expenses all advertising costs as incurred. Advertising costs for the three months ended and the six months ended June 30, 2011 and 2010, are reflected in the following table (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Advertising Costs	\$ 10,384	\$ 9,715	\$ 19,750	\$ 18,563

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2011

Note A Summary of Significant Accounting Policies (Continued)

Comprehensive Income. Comprehensive income includes net income and certain other items that are recorded directly to Stockholders' Equity. The Company's only source of other comprehensive income is foreign currency translation adjustments. The components of comprehensive income, net of tax, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 36,425	\$ 12,181	\$ 63,130	\$ 20,656
Translation adjustments	3,581	(9,753)	11,014	(14,676)
Total comprehensive income	\$ 40,006	\$ 2,428	\$ 74,144	\$ 5,980

Goodwill and Intangible Assets. Goodwill and intangible assets primarily consist of the cost of acquired companies in excess of the fair market value of their net tangible assets at the date of acquisition. Identifiable intangible assets are amortized over their lives, typically ranging from two to five years. Goodwill is not amortized, but is tested at least annually for impairment. The Company completed its annual goodwill impairment analysis as of June 30, 2011, and determined that no adjustment to the carrying value of goodwill was required.

Internal-use Software. The Company capitalizes direct costs incurred in the development of internal-use software. Amounts capitalized are reported as a component of computer software within property and equipment. Internal-use software development costs capitalized for the three months and the six months ended June 30, 2011 and 2010, are reflected in the following table (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Internal-use software development costs	\$ 4,735	\$ 2,933	\$ 7,993	\$ 3,961

Note B New Accounting Pronouncements

Fair Value Measurements and Disclosures. In May 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance to achieve common fair value measurement and disclosure requirements in GAAP and international financial reporting standards (IFRS). The amendments explain how to measure fair value and will improve the comparability of fair value measurement presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. This authoritative guidance is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material effect on its Financial Statements.

Comprehensive Income. In June 2011, the FASB issued authoritative guidance which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder's equity. This authoritative guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Except for presentation requirements, the Company does not expect the adoption of this guidance to have a material effect on its Financial Statements.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2011

Note C Other Current Assets

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

	June 30, 2011	December 31, 2010
Deposits in trusts for employee benefits and retirement plans	\$ 85,872	\$ 82,335
Other	53,718	59,126
	\$ 139,590	\$ 141,461

Note D Goodwill

The following table sets forth the activity in goodwill from December 31, 2010, through June 30, 2011 (in thousands):

	Goodwill
Balance as of December 31, 2010	\$ 189,787
Translation adjustments	702
Balance as of June 30, 2011	\$ 190,489

Note E Property and Equipment, Net

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

	June 30, 2011	December 31, 2010
Computer hardware	\$ 119,800	\$ 115,518
Computer software	245,527	232,657
Furniture and equipment	115,595	115,730
Leasehold improvements	117,889	116,241
Other	15,142	14,716
Property and equipment, cost	613,953	594,862
Accumulated depreciation	(506,653)	(491,211)
Property and equipment, net	\$ 107,300	\$ 103,651

Note F Accrued Payroll Costs and Retirement Obligations

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

	June 30, 2011	December 31, 2010
Payroll and benefits	\$ 176,670	\$ 153,329
Employee retirement obligations	83,283	80,716
Workers compensation	24,992	24,136
Payroll taxes	38,708	56,466
	\$ 323,653	\$ 314,647

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2011

Note F Accrued Payroll Costs and Retirement Obligations (Continued)

Included in employee retirement obligations is the following (in thousands):

	June 30, 2011	December 31, 2010
Deferred compensation plan and other benefits related to the Company's Chief Executive Officer	\$ 69,761	\$ 67,891

Note G Commitments and Contingencies

On September 10, 2004, Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. On September 18, 2006, the Court issued an order certifying a class with respect to claims for alleged unpaid overtime pay and related statutory penalties but denied certification with respect to claims relating to meal periods and rest time breaks. The Court has stayed the litigation until a decision by the California Supreme Court in a case titled *Pellegrino, et al. v. Robert Half International Inc.* As previously disclosed, the Company believes that *Pellegrino* is not a material pending legal proceeding. However, rulings by the California Supreme Court in *Pellegrino* or in *Harris v. Superior Court*, a case unrelated to the Company, may have a material adverse bearing on the Company's position in this litigation. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On February 23, 2011, Plaintiff Isabel Apolinario, on behalf of herself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. The Court has stayed this case until decisions by the California Supreme Court in the *Pellegrino* and *Harris* cases referenced in the first paragraph of this Note G. Rulings by the California Supreme Court in *Pellegrino* or *Harris* may have a material adverse bearing on the Company's position in this litigation. 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 in this case, and the Company intends to vigorously defend against the litigation.

On September 24, 2007, Plaintiff Van Williamson, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2011

Note G Commitments and Contingencies (Continued)

and Staffing Managers based in California were not provided meal periods, paid rest periods, and accurate itemized wage statements. It seeks one hour of wages for each employee for each meal and rest period missed during the statutory liability period. It also seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged failure to provide the meal and rest periods and accurate itemized wage statements. The allegations in the complaint are substantially similar to the allegations included in the complaint filed by Mark Laffitte described above. The Court stayed the litigation pending the California Supreme Court's decisions in two cases unrelated to the Company: *Brinker Restaurant Corp. v. Superior Court* and *Harris*, a case referenced in the first paragraph of this Note G. A ruling in the *Harris* case, the *Brinker* case, and/or the *Pellegrino* case referenced in the first paragraph of this Note G, may have a material adverse bearing on the Company's position in this litigation. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On April 23, 2010, Plaintiffs David Opalinski and James McCabe, on behalf of themselves and a putative class of similarly situated Staffing Managers, filed a Complaint in the United States District Court for the District of New Jersey naming the Company and one of its subsidiaries as Defendants. The Complaint alleges that salaried Staffing Managers located throughout the U.S. have been misclassified as exempt from the Fair Labor Standards Act's overtime pay requirements. Plaintiffs seek an unspecified amount for unpaid overtime on behalf of themselves and the class they purport to represent. Plaintiffs also seek an unspecified amount for statutory penalties, attorneys' fees and other damages. 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 vigorously defend against the litigation.

On May 13, 2011, Plaintiff Michael Merchant filed a complaint in California Superior Court naming a division of the Company as a Defendant. The complaint alleges certain technical violations of the California Labor Code regarding the presentation formatting of wage statements of certain current and former hourly employees and seeks an unspecified amount for penalties, attorneys' fees, costs and expenses. The plaintiff seeks to pursue these allegations in two representative capacities: (1) as the representative of a class seeking certain statutory penalties and requiring court certification to proceed; and (2) separately, as a private attorney general seeking certain civil penalties and requiring no court certification to proceed. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

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.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2011

Note H Stockholders Equity

Stock Repurchase Program. As of June 30, 2011, the Company is authorized to repurchase, from time to time, up to 8.4 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 six months ended June 30, 2011 and 2010, are reflected in the following table (in thousands):

	Six Months Ended June 30,	
	2011	2010
Common stock repurchased (in shares)	2,958	2,486
Common stock repurchased	\$ 85,851	\$ 65,569

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. Repurchases of shares are funded with cash generated from operations. The number and the cost of employee stock plan repurchases made during the six months ended June 30, 2011 and 2010, are reflected in the following table (in thousands):

	Six Months Ended June 30,	
	2011	2010
Employee stock plan repurchased (in shares)	193	240
Employee stock plan repurchased	\$ 5,694	\$ 6,192

The repurchased shares are held in treasury and are presented as if constructively retired. Treasury stock is accounted for using the cost method. Treasury stock activity for the six months ended June 30, 2011 and 2010 (consisting of stock option exercises and the purchase of shares for the treasury) is presented in the unaudited Condensed Consolidated Statements of Stockholders' Equity.

Cash Dividends. The Company's Board of Directors may at their discretion declare and pay dividends upon the shares of the Company's stock either out of the Company's retained earnings or capital surplus. The cash dividends declared during the six months ended June 30, 2011 and 2010, are reflected in the following table:

	Six Months Ended June 30,	
	2011	2010
Cash dividends declared per share	\$.28	\$.26

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. As a result, the Company had no retained earnings as of June 30, 2011 and December 31, 2010.

Note I Stock Plans

Under various stock plans, officers, employees and outside directors have received or may receive grants of restricted stock, stock units, stock appreciation rights or options to purchase common stock. Grants have been made at the discretion of the Committees of the Board of Directors. Grants generally vest over four years. Shares offered under the plan are authorized but unissued shares or treasury shares.

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

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

June 30, 2011

Note I Stock Plans (Continued)

Options currently outstanding under the plans have an exercise price equal to the fair market value of the Company's common stock at the date of grant and consist of non-statutory stock options under the Internal Revenue Code, and generally have a term of 10 years.

Recipients of restricted stock do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and for grants made prior to July 28, 2009, receive all dividends with respect to such shares on the dividend payment dates, whether or not the shares have vested as long as any performance condition has been met. Restricted stock grants made on or after July 28, 2009, contain forfeitable rights to dividends. Dividends for these grants are accrued on the dividend payment dates but are not paid until the shares vest, and dividends accrued for shares that ultimately do not vest are forfeited. Recipients of stock units do not pay any cash consideration for the units, do not have the right to vote, and do not receive dividends with respect to such units. Compensation expense for restricted stock and stock units is generally recognized on a straight-line basis over the vesting period, based on the stock's fair market value on the grant date. For restricted stock grants issued with performance conditions, compensation expense is recognized over each vesting tranche.

Note J Net Income Per Share

The calculation of net income per share for the three and six months ended June 30, 2011 and 2010, is reflected in the following table (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic net income per share:				
Net income	\$ 36,425	\$ 12,181	\$ 63,130	\$ 20,656
Income allocated to participating securities - basic	537	521	939	1,370
Net income available to common stockholders - basic	\$ 35,888	\$ 11,660	\$ 62,191	\$ 19,286
Basic weighted average shares	141,286	143,100	141,966	143,667
Basic net income per share	\$.25	\$.08	\$.44	\$.13
Diluted net income per share:				
Net income	\$ 36,425	\$ 12,181	\$ 63,130	\$ 20,656
Income allocated to participating securities - diluted	535	521	936	1,370
Net income available to common stockholders - diluted	\$ 35,890	\$ 11,660	\$ 62,194	\$ 19,286
Basic weighted average shares	141,286	143,100	141,966	143,667
Dilutive effect of potential common shares	1,299	1,231	1,391	1,332
Diluted weighted average shares	142,585	144,331	143,357	144,999
Diluted net income per share	\$.25	\$.08	\$.43	\$.13

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**June 30, 2011****Note J Net Income Per Share (Continued)**

Potential common shares include the dilutive effect of stock options, unvested performance-based restricted stock, restricted stock which contain forfeitable rights to dividends, and stock units. The weighted average diluted common shares outstanding for the three months and six months ended June 30, 2011 and 2010, excludes the effect of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total number of anti-dilutive potential common shares	803	761	664	551

Employee stock options will have a dilutive effect under the treasury method only when the respective period's average market value of the Company's common stock exceeds the exercise proceeds. Under the treasury method, exercise proceeds include the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in capital surplus, if the options were exercised and the stock units and performance-based restricted stock had vested.

Note K Business Segments