

ANNUAL REPORT 2018



INNOVATION

SERVICE
EXCELLENCE

GLOBAL
LEADER

CORPORATE
RESPONSIBILITY



ABOUT US

ACQUAEMP®

ROBERT HALF®
FINANCE & ACCOUNTING

ROBERT HALF®
MANAGEMENT RESOURCES

ROBERT HALF® TECHNOLOGY

OFFICETEAM®

ROBERT HALF® LEGAL

THE CREATIVE GROUP®

PROTIVITI®

Robert Half (NYSE: RHI) is a recognized leader in professional staffing and consulting services.

Our staffing divisions serve the finance and accounting, technology, administrative, legal, and creative and marketing fields. We help job seekers find meaningful employment, and we help businesses find the talent they need to expand and flourish. Our local teams provide personalized service and use artificial intelligence-based matching technology to find the right fit between employers and job candidates. We have more than 300 staffing locations worldwide, including 85 offices in 17 countries outside the United States.

Robert Half is also the parent company of Protiviti, a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and its independently owned Member Firms serve clients through a network of more than 80 locations in over 25 countries.

SELECTED FINANCIAL DATA

(in millions, except per share amounts)

| YEARS ENDED DEC 31, | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|
|---------------------|------|------|------|------|------|------|------|------|------|------|------|

INCOME STATEMENT DATA:

| | | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Net service revenues | \$ 5,800.3 | \$ 5,266.8 | \$ 5,250.4 | \$ 5,094.9 | \$ 4,695.0 | \$ 4,245.9 | \$ 4,111.2 | \$ 3,777.0 | \$ 3,175.1 | \$ 3,036.5 | \$ 4,600.6 |
| Operating income | \$ 588.9 | \$ 517.3 | \$ 554.5 | \$ 580.7 | \$ 497.2 | \$ 398.3 | \$ 343.4 | \$ 249.4 | \$ 115.0 | \$ 66.8 | \$ 416.7 |
| Net income | \$ 434.3 | \$ 290.6 | \$ 343.4 | \$ 357.8 | \$ 305.9 | \$ 252.2 | \$ 209.9 | \$ 149.9 | \$ 66.1 | \$ 37.3 | \$ 250.2 |
| Diluted net income per share, as reported | \$ 3.57 | \$ 2.33 | \$ 2.67 | \$ 2.69 | \$ 2.26 | \$ 1.83 | \$ 1.50 | \$ 1.04 | \$.44 | \$.24 | \$ 1.59 |
| Diluted net income per share, non-GAAP* | \$ 3.61 | \$ 2.60 | | | | | | | | | |
| Diluted shares | 121.6 | 124.9 | 128.8 | 132.9 | 135.5 | 137.6 | 139.4 | 141.8 | 144.0 | 146.6 | 152.5 |
| Cash dividends declared per share | \$ 1.12 | \$.96 | \$.88 | \$.80 | \$.72 | \$.64 | \$.60 | \$.56 | \$.52 | \$.48 | \$.44 |

CASH FLOW DATA:

| | | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Net cash flows provided by operating activities | \$ 572.3 | \$ 453.0 | \$ 442.1 | \$ 438.2 | \$ 340.7 | \$ 309.2 | \$ 289.2 | \$ 256.3 | \$ 175.9 | \$ 240.2 | \$ 447.1 |
| Capital expenditures | \$ 42.5 | \$ 40.8 | \$ 83.0 | \$ 75.1 | \$ 62.8 | \$ 53.7 | \$ 50.1 | \$ 56.5 | \$ 35.1 | \$ 41.2 | \$ 73.4 |

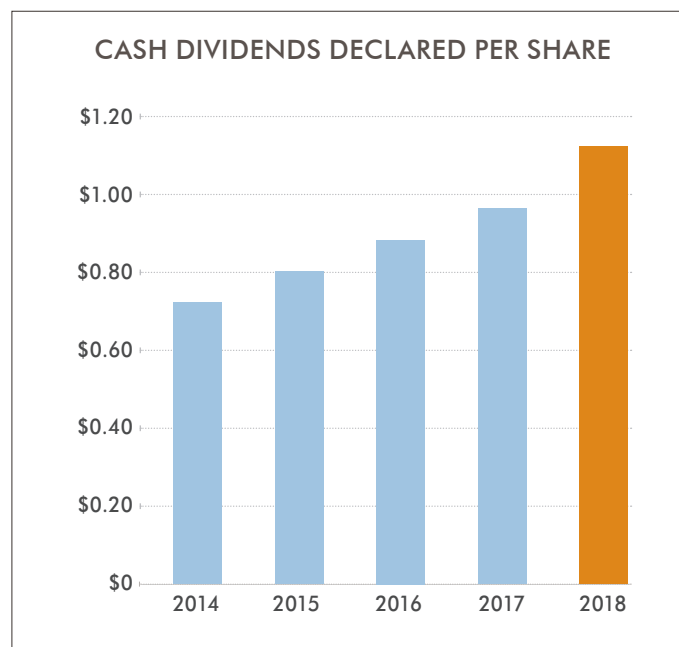
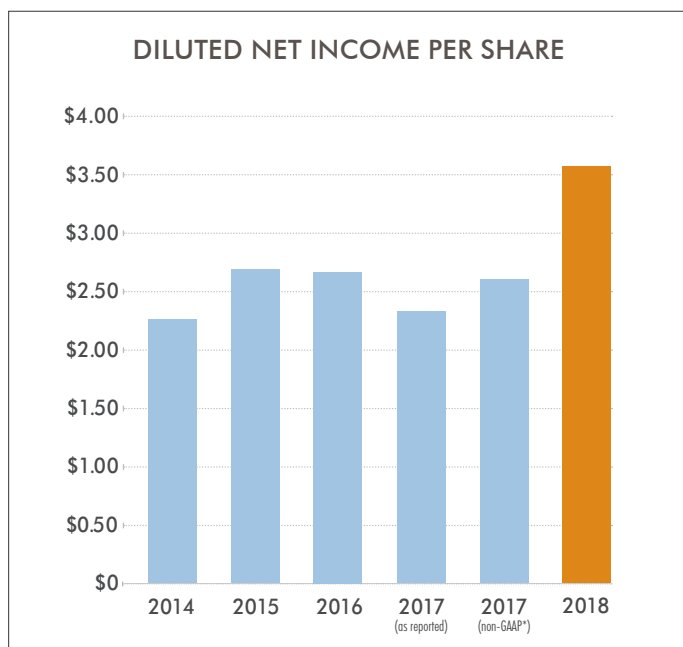
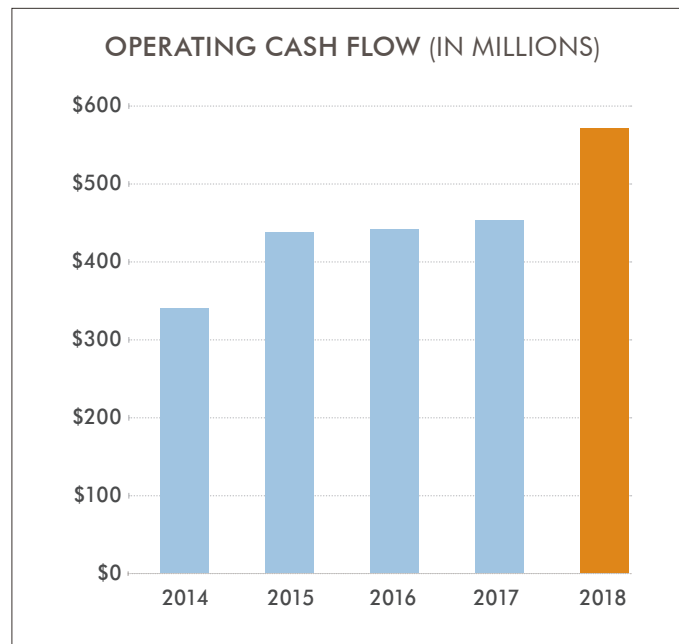
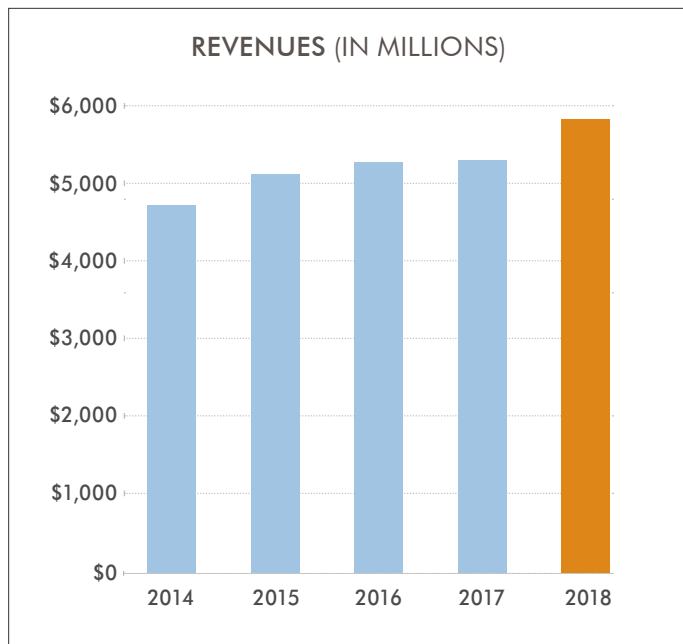
BALANCE SHEET DATA AT YEAR-END:

| | | | | | | | | | | | |
|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total assets | \$ 1,903.1 | \$ 1,867.5 | \$ 1,778.0 | \$ 1,671.0 | \$ 1,620.8 | \$ 1,497.7 | \$ 1,367.0 | \$ 1,297.4 | \$ 1,272.6 | \$ 1,283.5 | \$ 1,411.9 |
| Debt financing | \$ 0.7 | \$ 0.8 | \$ 1.0 | \$ 1.2 | \$ 1.3 | \$ 1.4 | \$ 1.5 | \$ 1.7 | \$ 1.8 | \$ 1.9 | \$ 2.0 |
| Stockholders' equity | \$ 1,063.2 | \$ 1,105.3 | \$ 1,086.6 | \$ 1,003.8 | \$ 979.9 | \$ 919.6 | \$ 842.0 | \$ 800.5 | \$ 834.4 | \$ 899.8 | \$ 983.9 |

* See Appendix A to the Company's Proxy Statement mailed to stockholders in April 2019 for a reconciliation of the non-GAAP measures to the most comparable GAAP measures: <https://www.roberthalf.com/investor-center/sec-filings/definitive-14a>

FINANCIAL HIGHLIGHTS

5-YEAR HISTORY



* See Appendix A to the Company's Proxy Statement mailed to stockholders in April 2019 for a reconciliation of the non-GAAP measures to the most comparable GAAP measures: <https://www.roberthalf.com/investor-center/sec-filings/definitive-14a>



Harold M. Messmer, Jr.
Chairman and
Chief Executive Officer



M. Keith Waddell
Vice Chairman, President
and Chief Financial Officer

TO OUR STOCKHOLDERS

Robert Half ended 2018 with record annual revenues. Growth was widespread and consistent throughout the year, both geographically and in each of our three reportable business segments — temporary and consultant staffing, permanent placement, and Protiviti.

Generally favorable economic conditions were accompanied by tight global labor markets in supporting our growth throughout the year. Full-year companywide revenues in 2018 were \$5.8 billion, up 10 percent from the prior year. U.S. revenues grew 8 percent, while international revenues increased 19 percent. On a global basis, year-over-year quarterly revenue gains clustered around low double-digit percentage rates. U.S. quarterly gains improved sequentially, reaching high single-digit percentage advances in the second half of the year. International quarterly increases were faster overall but moderated later in the year compared to the first six months' performance.

Net income of \$434 million was 49 percent ahead of the year-earlier amount of \$291 million. Earnings per share in 2018 were \$3.57 compared with \$2.33 in 2017, a 53 percent gain.

The income comparison was affected by noncash charges in both years. Those charges increased our tax provisions and reduced income in 2018 and 2017. The added tax provisions arose in connection with the Tax Cuts and Jobs Act (TCJA) enacted in December 2017.

As adjusted to exclude these amounts, our 2018 net income was \$439 million, or \$3.61 per share,* and 2017 net income was \$324 million, or \$2.60 per share,* resulting in year-over-year gains of 35 percent and 39 percent, respectively. Earnings per share in 2018 benefitted from 3 percent fewer shares outstanding.

We regard return on invested capital (ROIC) as an important measure of our performance. This ratio demonstrates the efficiency with which we employ our capital to generate earnings. Our goal is to allocate the company's capital in a balanced way that produces superior long-term returns to our shareholders. Last year's results were consistent with that objective. ROIC was 39 percent, which compares favorably with the average 22 percent generated over the past two decades.

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In a sense, we are becoming labor market consultants to clients as we help them understand the realities of tight labor market conditions.



GLOBAL ECONOMY PROVIDES A LIFT

U.S. gross domestic product (GDP) grew at a rate of 2.9 percent in 2018, a notable increase from the prior year's 2.2 percent. Increased economic activity was accompanied by improved job growth. Last year, the economy produced 2.7 million jobs, up from 2.2 million added in 2017. Nonfarm payrolls increased each month by at least 100,000 jobs and increased an average of 223,000 jobs monthly for the year. The positive trend continued in January 2019, with payrolls increasing by 311,000.

The decline in the unemployment rate during the long economic recovery continued during much of 2018. The rate fell to 3.7 percent in September, nearly a 50-year low, before inching up to 3.9 percent at year's end. It was 3.8 percent in February 2019. The modest uptick in the jobless rate in recent months is due in part to an increase in the labor force participation rate. Idle workers have been re-entering the labor force as employment prospects have brightened. We should point out that unemployment rates are significantly lower in the professional occupations in which we specialize, and talent shortages are more pronounced in these specialty fields.

Total revenues outside the United States grew 19 percent in 2018. We enjoyed solid growth overseas despite uneven economic conditions in some of the international markets we serve. Persistently high talent demand has helped us grow in these countries even under less favorable economic conditions. The staffing component of our international business performed well in all European geographies, particularly Belgium and Germany. That was especially the case in our permanent placement business, which is a disproportionately larger part of our international operations. Our internal audit and risk consulting subsidiary, Protiviti, saw particular strength in the United Kingdom, Australia and Germany. Good international

momentum in 2018 provides a sound basis for our optimism about growth opportunities ahead.

Despite shortages of skilled workers and near-record low unemployment, wage increases have been unusually slow to materialize. Salaries finally began to climb noticeably for many U.S. workers in 2018. This was the case among highly specialized professionals like those we place at Robert Half. As a result, our bill-pay spreads (the difference between what we collect from clients and what we pay candidates) have moved up to levels more typical of those sustained in past tight labor markets. Clients now recognize that they need to pay more to get the candidates they want most. That realization becomes more acute if they have lost out multiple times on hiring preferred candidates. In a sense, we are becoming labor market consultants to clients as we help them understand the realities of tight labor market conditions.

SPECIALIZED STAFFING OPERATIONS

Small and midsize businesses (SMBs) make up the majority of our staffing clients. This market segment is the largest and may be the least served by the staffing and consulting industries. Paradoxically, SMB clients are everywhere, yet they are hard to reach. They often lack dedicated human resources staff. Our competitors often overlook them. Pricing for them may be less sensitive. Our business model has been honed over decades to reach this vast market. It is hard for anyone else to duplicate what we have built.

There is plenty of evidence that SMB clients are in a hiring mode. The National Federation of Independent Business (NFIB) Small Business Optimism Index remained near historic highs throughout 2018. Elsewhere, a fourth-quarter CEO confidence index compiled by Vistage (a long-established

executive coaching organization) reported that 65 percent of CEOs of small and midsize businesses planned to expand their workforce in 2019. It is no secret that it has been a struggle to find workers with expertise in high-profile areas like cybersecurity, cloud computing and digital transformation. Demand is likely to remain heated for professionals with skills in these areas. We have had success in targeting our information technology recruiting and marketing efforts to these fields.

SMBs remain the backbone of our staffing client base, but we also target select larger corporations that are drawn to the professional level of our services. It is common for these companies to undertake large, complex projects requiring employees with a broad range of skills. We are positioned to meet their needs by providing a full suite of staffing and Protiviti capabilities, which we discuss later in this letter.

Temporary and consultant staffing is our largest reporting segment. Its \$4.33 billion of 2018 global revenues accounted for 75 percent of the companywide total and increased 8 percent over the prior year. Global quarterly increases were fairly uniform at high single-digit percentage rates throughout the year. U.S. staffing growth lagged that of international operations, but the domestic quarterly trend showed steady improvement. By contrast, international quarterly gains were faster, but the trend moderated as the year unfolded.

Our permanent placement reporting segment is Robert Half's oldest business. Its \$512 million in revenues accounted for 9 percent of the 2018 companywide total, a rate consistent with long-term trends. On a global basis, permanent placement revenues grew 17 percent for the year, with quarterly gains at consistently solid double-digit percentage rates. U.S. quarterly increases were consistent at rates in the mid- to high teens.

PROTIVITI

Protiviti reported global revenues last year of \$958 million, an increase of 17 percent over the prior year. Protiviti's service offerings were relatively limited when it was launched as a Robert Half subsidiary in 2002. Now, 16 years and nearly a billion dollars in annual revenues later, Protiviti has become a key part of our business. Protiviti accounted for 16 percent of total revenues in 2018 and produced a near-record \$93 million in operating income. The importance of this business, however, goes beyond its direct financial contribution to our results.

Protiviti's leadership and talent have made it a respected competitor in consulting with more than 5,000 full-time employees, contractors and Member Firm staff at the end of 2018. Soon after its creation, Protiviti was a beneficiary of the compliance requirements of the Sarbanes-Oxley Act (SOX), which became law in 2002. Although we still help clients with SOX compliance, we have expanded by adding other regulatory-driven and traditional business and technology consulting efforts. Our expanded suite of consulting offerings includes risk and compliance, data and analytics, and performance improvement, among others. Protiviti is putting more focus on technology consulting, with an additional emphasis on cybersecurity, cloud computing and digital transformation consulting.

Increasingly, Protiviti is collaborating with Robert Half's staffing operations to work on major client initiatives. In these engagements, Protiviti not only offers its consulting expertise and technologies but is also able to draw on the reservoir of experienced workers available through our staffing lines of business, professionals who are not easy to access in a tight labor market like today's. This gives Protiviti access to supporting talent with hands-on skills, the nature of which —

ROBERT HALF BUSINESS HIGHLIGHTS

**\$5.80
BILLION**

2018 NET SERVICE
REVENUES

**\$1.90
BILLION**

TOTAL ASSETS
AS OF 12/31/18

39%

2018 RETURN
ON INVESTED CAPITAL

\$3.61

DILUTED NET
INCOME PER SHARE,
NON-GAAP*

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We believe our record results in 2018 reflect our steadfast adherence to our corporate purpose: helping job candidates build their careers and companies grow their business.

and the need for — can fluctuate during the term of the engagement. Our flexible human resources capability distinguishes us from other global and regional consulting firms.

The ability, as a single provider, to offer clients managed solutions consisting of project oversight, deep subject matter expertise, deliverables and a scalable network of experienced staff to help complete their projects is unique in our industry. Clients appreciate the efficiencies and lower costs inherent in these projects that employ a full spectrum of resources. Joint activities like these are not new to us, but we are now taking them to a new level.

FINANCIAL CONDITION

Our balance sheet is exceptionally sound. From a financial perspective, our business is largely about managing working capital. More than half of year-end 2018 total assets of \$1.9 billion consisted of highly liquid assets. Cash and cash equivalents net of debt was \$276 million, little changed from the prior year. Accounts receivable totaled \$794 million at year-end, increasing during the year at a rate generally paralleling our revenue growth. We have made timely collection of receivables a priority because of their relative importance on our balance sheet. Our average days sales outstanding at 49 days was consistent with past trends. Our exposure to receivables collectability risk is reduced by the composition of our customer base. We are free of concentrations — in customers, industries or geographies. We are also free of the risks that come with carrying and managing inventory — we have none. Our capital expenditure needs are modest.

We have a long history of producing generous amounts of cash under both favorable and unfavorable business conditions. Last year's net cash provided by operating

activities reached an all-time high of \$572 million, 26 percent ahead of 2017's total. We spent \$43 million of that amount on capital expenditures, a level consistent with the prior year's total but below the five-year average of \$61 million annually. Spending picked up throughout the year with the final quarter's \$15 million outlay annualizing at \$60 million, a level expected to be within 2019's budgeted range of \$60 million to \$70 million for capital expenditures.

A significant percentage of last year's capital outlays was for investments in software and technology infrastructure. You will not find these assets identified separately on our balance sheet, but that does not mean they are unimportant. We consider technology investments to be essential to our growth. As such, you can expect us to continue to invest heavily in technology in the future. We discuss certain of these investments later in this letter.

All of last year's \$484 million of free cash flow (cash provided by operating activities less cash used for investing activities), and then some, was returned to shareholders via cash dividends and the repurchase of Robert Half shares. Last year's \$.28 per share quarterly cash dividend was equivalent to a \$136 million annual outlay. We initiated a \$.06 per share quarterly cash dividend back in 2004. Annual increases since 2004 have been uninterrupted while compounding at a 12 percent average annual rate. Our board recently increased the quarterly cash dividend to \$.31 per share.

We have repurchased Robert Half shares yearly since 1997. Over that extended period, we repurchased 111 million shares for \$3.4 billion. In the past decade alone, we spent \$1.7 billion to acquire 43 million shares. That is a significant percentage of the \$2.7 billion of free cash flow generated during that interval. The repurchase effort is continuing; we acquired 5.6 million shares, for \$351 million, in 2018. There are 6.7 million shares available under our current board-authorized repurchase plan. We concluded 2018 with 119 million shares outstanding.

We made no acquisitions last year. That is consistent with our long-held preference to grow organically. Our approach recognizes that the market for our services is vast, with many opportunities for growth. Further, we believe that expanding through acquisitions carries more risk, particularly the challenges of integrating acquisitions into our culture, which is highly service-driven.

THE PEOPLE-TECHNOLOGY CONNECTION

We believe our record results in 2018 reflect our steadfast adherence to our corporate purpose: helping job candidates build their careers and companies grow their business. This purpose permeates our organizational culture at Robert Half. It leads to the personal rewards our professionals experience from helping job seekers and businesses in aspects central to their existence: their livelihood and their ability to evolve and acquire new customers. Our company culture is also expressed through our long-held belief in placing ethics first in our business dealings, serving our communities, and providing a safe and inclusive workplace.

The combination of technology and personal service we provide is key to our continued growth and reputation. We are convinced that you can't have one without the other and still provide clients with the hiring help they need. All of our people and technology investments are designed to offer an optimal mix of high-tech and high-touch.

We are always working to make it easier and faster for employers and job seekers to hire and be hired. That is especially true in tight labor markets. During 2018, we introduced more proprietary digital solutions at critical customer touch points. These enhancements include a single platform connecting our front office, back office, mobile apps, and clients and candidates to offer a unique digital customer experience. We will continue to introduce new functionality in 2019.

A new marketing automation program driven by our proprietary artificial intelligence (AI) matching technology is also helping us more easily and quickly find the right fit for both employers and job seekers. Using AI, machine learning and our deep pool of candidates, we are able to send personalized candidate and job recommendations to clients and job seekers. Using data only we have, we also can evaluate how well our temporary candidates align with their respective job assignments, facilitating even better matches for clients.

Through targeted marketing messages, we are able to reach brand-new clients and companies.

There is, however, no AI technology capable of evaluating a candidate's soft skills, attitude, professionalism or demeanor. This is where the other half of the equation, our very experienced staffing professionals, comes in. While online interaction can facilitate the job search and recruitment processes, our accompanying personalized service is critical because identifying someone who is a possible match with a job is just the start of the hiring process. In-demand full-time candidates frequently have multiple opportunities available to them. Salary must be negotiated. Counteroffers must be managed. This is work we do for our clients, so they don't have to. It is even more complex when it comes to temporary placements. Candidate availability for immediate temporary employment is fluid and ever-changing.

LOOKING AHEAD

Current trends leave us optimistic about where the company is positioned right now. We believe businesses and other employers will be challenged for the foreseeable future by shortages of skilled workers.

The biggest obstacle to growth for many employers is their inability to fill jobs fast enough. In December 2018, 60 percent of business owners polled by NFIB were hiring or trying to hire, and 90 percent reported few or no qualified applicants. Entering 2019, the talent shortage jumped from third to first place among emerging risks for organizations worldwide,



according to senior executives in global research firm Gartner's latest Emerging Risks Survey. Long-term demographics will exacerbate this trend. Not only are companies continuing to lose the institutional knowledge of retiring baby boomers — as many as 10,000 reach retirement age every day — but the increasing automation of routine jobs will boost demand for higher-skilled workers who are already hard to find.

We offer a wide spectrum of staffing and consulting services that can be tailored to the needs of any company — from a small business to a Fortune 500 corporation. Our SMB staffing client base, as well as larger businesses with more complex staffing needs, value our consultative approach. This is particularly true at a time when clients' demand for help in business and technology transformation is growing daily.

The long-predicted global talent shortage is now upon us, and there is no evidence of an imminent solution. It is difficult to see major changes to hiring demand coming anytime soon.

Our industry continues to grow. The global staffing industry's annual revenues exceed \$450 billion. And the temp penetration rate in the United States — temporary jobs as a percent of total employment — continues to rise, reflecting businesses' growing acceptance of flexible staffing models. We are pleased with the opportunities for Protiviti as it continues to build a loyal client base and expands its suite of consulting solutions. Our combined staffing and Protiviti services allow us to meet a company's needs at every point in the staffing and consulting continuum.

Our brands are among the staffing and consulting world's most recognized and respected, our financial position is strong, and we have the most experienced field and corporate management team in our industry. We are very proud of the job they have been doing in guiding our talented staffing, recruiting, Corporate Services and Protiviti professionals. The dedication of these teams to serving customers and continually sparking innovations in our operations is key to our success.

On a final note, we want to thank our board of directors for their sound guidance and strategic counsel during the year. This year, we are pleased to welcome our newest board members, noted macro- and labor economist Julia L. Coronado, Ph.D., and Dirk A. Kempthorne, who brings deep experience from a distinguished career in public office, as well as in business. We would also like to express our gratitude to you, our stockholders, for your continued support of our business.

Respectfully submitted,



Harold M. Messmer, Jr.
Chairman and
Chief Executive Officer

March 20, 2019



M. Keith Waddell
Vice Chairman, President
and Chief Financial Officer

March 20, 2019

CORPORATE RESPONSIBILITY

Robert Half helps job candidates find rewarding work and clients find the specialized talent to grow their business. It's work our employees can be proud of, and it is at the core of our service philosophy. Our environmental, social and governance policies and programs are designed to support universal human rights; respect the diversity of our employees, customers and business partners; form the foundation of our philanthropic endeavors; and protect the environment in the communities we serve.

We believe our emphasis on high ethical standards, which has long been a cornerstone of our business, is a key factor in our success and longevity in the staffing industry. We offer job seekers — from military veterans and recent college graduates to seasoned professionals pursuing new career paths — a sense of dignity and empowerment in their job search. And we connect businesses, large and small, with skilled talent.

ROBERT HALF MISSION STATEMENT

Our company's mission statement reflects our commitment to:

- Help businesses grow by matching the right talent to their specialized staffing and consulting needs, and build rewarding careers for the professionals we place.
- Adhere to a philosophy of "Ethics First" in everything we do.
- Create a work environment where employees can thrive and innovate.
- Be a socially responsible corporate citizen and an active participant in the communities in which we live and work.

CODE OF BUSINESS CONDUCT AND ETHICS

Our Code of Business Conduct and Ethics, available on our website, outlines a wide range of business practices and procedures. While it cannot cover every issue that may arise, it sets out basic principles to guide all employees, agents and representatives of Robert Half and Protiviti.

For Robert Half, being a good corporate citizen means understanding both the local and global impacts of our company's policies and programs — from our hiring and workplace practices to our environmental sustainability programs. We know that our stakeholders care deeply about our company's efforts to improve continuously in these and other areas.

Robert Half recently became a signatory company with the United Nations Global Compact (UNGC), whose members commit to supporting human rights, fair labor practices, protection of the environment and anti-corruption measures. Robert Half also became a signatory of the Women's Empowerment Principles, a joint initiative of the UNGC and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women), that seek to empower women in the workplace, marketplace and community.

DIVERSITY AND INCLUSION AT ROBERT HALF

Diversity and inclusion are essential elements of our corporate culture. We believe that this focus helps our employees feel valued and welcome and leads to greater productivity, innovation and engagement. Our diversity initiatives go beyond legal compliance. For example, we have selected a team of "Diversity Champions" across the United States and Canada who help promote diversity and inclusion initiatives, contributing to our ongoing efforts to build a workplace environment where all people can connect, thrive and grow.

At our San Ramon, Calif., campus, our Diversity and Inclusion team hosts webinars and diversity events and encourages employees to take advantage of e-learning opportunities on diversity. Quarterly events educate employees on topics like work-life balance, communication and honoring our military veterans.

VETERANS INITIATIVE

Robert Half's decades of experience in staffing make us a valuable resource for members of the military community as they enter or re-enter the civilian workforce. Working with key organizations, we provide U.S. veterans and military families with career resources and guidance through our global office network. We help veterans launch rewarding careers with companies across the United States and around the world.

One of the key resources Robert Half offers to veterans is our military skills translator, which matches military job codes with civilian positions available at our company and our clients' organizations. We worked with the nonprofit DirectEmployers Association to create this online tool.

COMMUNITY COMMITMENT

Our global volunteer and philanthropy programs — Leading by Example at Robert Half and iCare at Protiviti — play a central role in our ability to meet our social responsibility objectives. These initiatives also help to drive employee engagement, and we believe they boost our ability to attract and retain talent.

Leading by Example focuses on education and workforce development, two areas where we feel we can make the greatest impact as a staffing company. And Protiviti's iCare initiative encourages our employees to determine the civic involvement opportunities that are most important to them.

Robert Half matches our North American employees' contributions to a range of eligible nonprofit organizations. Through our online community involvement platform, our part- and full-time employees have a single destination for managing their matching donations and volunteer efforts.

ENVIRONMENTAL SUSTAINABILITY PRACTICES

As a professional services firm, our environmental impact is relatively small compared to that of many other types of companies. Nevertheless, Robert Half is committed to environmental protection, creating environmental awareness and minimizing our effect on the environment.

We made changes in recent years that help us to conduct our business in an even more environmentally responsible manner. Our recent pledge to align with the UN Global Compact principles, which include environmental principles, and our voluntary participation in the CDP global disclosure system are just two examples of those efforts. Another significant change is the introduction of our new, board-approved Global Environmental Policy. It requires employees, vendors and suppliers of our company to comply with all applicable environmental laws and regulations and to conduct business in a manner that protects the environment, conserves resources and ensures sustainable development.

INDUSTRY RECOGNITION

Robert Half once again was named first in our industry on Fortune magazine's 2019 list of **"World's Most Admired Companies,"** our 21st consecutive year appearing on the list.

Robert Half was selected for the **Bloomberg 2019 Gender-Equality Index**, which recognizes companies committed to advancing women's equality and transparency in gender reporting.

Robert Half was selected by Forbes as one of **"America's Best Employers for Diversity 2019."** The 500 companies on the list are recognized for diversity efforts related to gender, ethnicity, LGBTQ+, age and disability.

Robert Half was named one of **"America's Most Trustworthy Public Companies"** in 2019 by Bright Governance Consulting, LLC.

Robert Half was named one of Barron's **"100 Most Sustainable U.S. Companies"** in 2019 based on an analysis of environmental, social and governance factors.

For five straight years (2015-2019), Protiviti has been named to the Fortune **"100 Best Companies to Work For"** list.

Protiviti was named to Forbes' 2019 list of **"America's Best Management Consulting Firms."**

Protiviti was named to the 2018 Working Mother **"100 Best Companies"** list.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR

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

Commission file number 1-10427

ROBERT HALF INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

94-1648752

(I.R.S. Employer
Identification No.)

2884 Sand Hill Road, Menlo Park, California

(Address of principal executive offices)

94025

(Zip code)

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

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

Title of each class

Common Stock, Par Value \$.001 per Share

**Name of each exchange
on which registered**

New York Stock Exchange

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

None

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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 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. Yes No

As of June 30, 2018, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$7,755,399,413 based on the closing sale price on that date. This amount excludes the market value of 3,419,525 shares of Common Stock directly or indirectly held by registrant's directors and officers and their affiliates.

As of January 31, 2019, there were 119,078,490 outstanding shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be mailed to stockholders in connection with the registrant's annual meeting of stockholders, scheduled to be held in May 2019, are incorporated by reference in Part III of this report. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be part of this report.

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PART I

Item 1. Business

Robert Half International Inc. (the “Company”) provides specialized staffing and risk consulting services through such divisions as *Accountemps*[®], *Robert Half*[®] *Finance & Accounting*, *OfficeTeam*[®], *Robert Half*[®] *Technology*, *Robert Half*[®] *Management Resources*, *Robert Half*[®] *Legal*, *The Creative Group*[®], and *Protiviti*[®]. The Company, through its *Accountemps*, *Robert Half Finance & Accounting*, and *Robert Half Management Resources* divisions, is the world’s largest specialized provider of temporary, full-time, and project professionals in the fields of accounting and finance. *OfficeTeam* specializes in highly skilled temporary administrative support personnel. *Robert Half Technology* provides information technology professionals. *Robert Half Legal* provides temporary, project, and full-time staffing of attorneys and specialized support personnel within law firms and corporate legal departments. *The Creative Group* provides project staffing in the digital, marketing, and creative fields. *Protiviti*, which began operations in 2002, is a global business consulting and internal audit firm. *Protiviti*, which primarily employs professionals specializing in risk, advisory and transactional services, is a wholly owned subsidiary of the Company.

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

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

Accountemps

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

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

OfficeTeam

The Company’s *OfficeTeam* division, which commenced operations in 1991, places temporary and full-time office and administrative personnel, ranging from executive and administrative assistants to receptionists and customer service representatives. *OfficeTeam* operates in much the same fashion as the *Accountemps* division.

Robert Half Finance & Accounting

Established in 1948, the Company’s first division and specialized recruitment pioneer *Robert Half Finance & Accounting* specializes in the placement of full-time accounting, financial, tax and accounting operations personnel. Fees for successful

placements are paid only by the employer and are generally a percentage of the new employee's annual compensation. No fee for placement services is charged to employment candidates.

Robert Half Technology

The Company's *Robert Half Technology* division, which commenced operations in 1994, specializes in providing information technology contract consultants, placing full-time employees, and offering managed services in areas ranging from multiple platform systems integration to end-user technical and desktop support, including specialists in application development (including mobile, cloud and enterprise applications), networking, systems integration and deployment, database design and administration, and security and business continuity.

Robert Half Legal

Since 1992, the Company has been placing temporary and full-time employees in attorney, paralegal, legal administrative and legal secretarial positions through its *Robert Half Legal* division. The legal profession's requirements (the need for confidentiality, accuracy and reliability, a strong drive toward cost-effectiveness, and frequent peak caseload periods) are similar to the demands of the clients of the *Accountemps* division. *Robert Half Legal* offers a full suite of legal staffing and consulting services to help organizations manage constantly changing workloads and access expertise across in-demand legal practice areas.

Robert Half Management Resources

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

The Creative Group

The Creative Group division commenced operations in 1999 and specializes in identifying for its clients creative professionals in the areas of interactive media, design, marketing, advertising and public relations. The division places freelance and project consultants in a variety of positions such as creative directors, graphics designers, web content developers, web designers, media buyers, brand managers, and public relations specialists.

Protiviti

Protiviti is a global consulting firm that helps companies solve problems in finance, technology, operations, data, analytics, governance, risk and internal audit. Through its risk management and internal audit heritage, *Protiviti* has gained unique perspectives on the challenges faced by its clients. *Protiviti* uses these perspectives not only to solve regulatory, risk and compliance problems, but also to help clients become more effective and productive. *Protiviti* provides solutions to its clients in areas such as business performance improvement, internal audit and financial advisory, IT consulting, restructuring and litigation, risk and compliance, and transaction services.

Marketing and Recruiting

The Company markets its staffing services to clients and employment candidates via both national and local advertising activities. Advertising consists of client- and employment candidate-facing buys in radio, digital display, search engine marketing, social media, trade publications, job boards and events. The Company also markets its services, as well as hiring and career management advice content and thought leadership, via its search engine-optimized website, e-mail marketing program, social media and blog. Direct marketing via telephone solicitation is a significant portion of the Company's total marketing efforts. Additionally, the Company has expanded its use of job boards and job aggregators in all aspects of sales and recruitment. Joint marketing arrangements have been entered into with major software manufacturers and typically provide for the development of proprietary skills tests, cooperative advertising, joint e-mail campaigns, and similar promotional activities. The Company also actively seeks endorsements and affiliations with professional organizations in the accounting and finance, technology, legal, and creative and marketing fields. In addition, the Company conducts public relations activities designed to enhance public recognition of the Company and its services. This includes outreach to journalists, bloggers and social media influencers, and the distribution of print, digital, and video thought leadership. Robert Half staffing and recruiting professionals are encouraged to be active in civic organizations and industry trade groups in their local communities.

Protiviti markets its business consulting and internal audit services to a variety of clients in a range of industries. Industry and competency teams conduct targeted marketing efforts, locally, nationally and globally, including print advertising, production of thought leadership, and branded speaking events. National advertising conducted by *Protiviti* consists primarily of print advertisements in national newspapers, magazines and selected trade journals. *Protiviti* regularly conducts a variety of programs to share its insights with clients on current topics such as risk, technology, corporate governance, and industry challenges. It conducts public relations activities, such as distributing press releases, white papers, case studies and newsletters, designed to enhance recognition for the *Protiviti* brand, establish its expertise in key issues surrounding its business and promote its services. *Protiviti* plans to expand both the services and value added content on the *Protiviti.com* website and increase traffic through targeted Internet advertising. Local employees are encouraged to be active in relevant social media communities, civic organizations and industry trade groups.

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

Organization

Management of the Company's staffing operations is coordinated from its headquarters facilities in Menlo Park and San Ramon, California. The Company's headquarters provides support and centralized services to its offices in the administrative, marketing, public relations, accounting, information technology, training and legal areas, particularly as it relates to the standardization of the operating procedures of its offices. As of December 31, 2018, the Company conducted its staffing services operations through 324 offices in 42 states, the District of Columbia and 17 foreign countries. Office managers are responsible for most activities of their offices, including sales, local advertising and marketing and recruitment.

The day-to-day operations of *Protiviti* are managed by a chief executive officer and a senior management team with operational and administrative support provided by individuals located in San Ramon and Menlo Park, California. As of December 31, 2018, *Protiviti* had 62 offices in 23 states and 11 foreign countries.

Competition

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

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

Employees

The Company has approximately 18,900 full-time employees, including approximately 4,000 engaged directly in *Protiviti* operations. In addition, the Company placed approximately 212,700 temporary employees on assignments with clients during 2018. Employees placed by the Company on assignment with clients are the Company's employees for all purposes while they are working on assignments. The Company pays the related costs of employment, such as workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company provides access to voluntary health insurance coverage to interested temporary employees.

Other Information

The Company is not dependent upon a single customer or a limited number of customers. The Company's staffing services operations are generally more active in the first and fourth quarters of a calendar year. *Protiviti* is generally more active in the third and fourth quarters of a calendar year. Order backlog is not a material aspect of the Company's staffing services business. While backlog is of greater importance to *Protiviti*, the Company does not believe, based upon the length of time of

the average *Protiviti* engagement, that backlog is a material aspect of the *Protiviti* business. No material portion of the Company's business is subject to government contracts.

Available Information

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

Item 1A. Risk Factors

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

Any reduction in global economic activity may harm the Company's business and financial condition. The demand for the Company's services, in particular its staffing services, is highly dependent upon the state of the economy and upon the staffing needs of the Company's clients. Certain of the Company's markets have recently experienced prolonged economic downturns characterized by high unemployment, limited availability of credit and decreased consumer and business spending. In addition, certain geopolitical events, including the prolonged shutdown of the United States government and the ongoing negotiation of the United Kingdom's withdrawal from the European Union ("Brexit"), have caused significant economic, market, political and regulatory uncertainty in some of the Company's markets. Any decline in the economic condition or employment levels of the U.S. or of any of the foreign countries in which the Company does business, or in the economic condition of any region of any of the foregoing, or in any specific industry may severely reduce the demand for the Company's services and thereby significantly decrease the Company's revenues and profits. Further, continued or intensifying economic, political or regulatory uncertainty in the Company's markets could reduce demand for the Company's services.

The Company's business depends on a strong reputation and anything that harms its reputation will likely harm its results. As a provider of temporary and permanent staffing solutions as well as consultant services, the Company's reputation is dependent upon the performance of the employees it places with its clients and the services rendered by its consultants. The Company depends on its reputation and name recognition to secure engagements and to hire qualified employees and consultants. If the Company's clients become dissatisfied with the performance of those employees or consultants or if any of those employees or consultants engage in or are believed to have engaged in conduct that is harmful to the Company's clients, the Company's ability to maintain or expand its client base may be harmed.

The Company and certain subsidiaries are defendants in several lawsuits that could cause the Company to incur substantial liabilities. The Company and certain subsidiaries are defendants in several actual or asserted class and representative action lawsuits brought by or on behalf of the Company's current and former employees alleging violations of federal and state law with respect to certain wage and hour related matters, as well as claims challenging the Company's compliance with the Fair Credit Reporting Act. The various claims made in one or more of such lawsuits include, among other things, the misclassification of certain employees as exempt employees under applicable law, failure to comply with wage statement requirements, failure to compensate certain employees for time spent performing activities related to the interviewing process, and other related wage and hour violations. Such suits seek, as applicable, unspecified amounts for unpaid overtime compensation, penalties, and other damages, as well as attorneys' fees. It is not possible to predict the outcome of these lawsuits. However, these lawsuits may consume substantial amounts of the Company's financial and managerial resources and might result in adverse publicity, regardless of the ultimate outcome of the lawsuits. In addition, the Company and its subsidiaries may become subject to similar lawsuits in the same or other jurisdictions, or to various other claims, disputes, and legal or regulatory proceedings that arise in the ordinary course of business. An unfavorable outcome with respect to these lawsuits and any future lawsuits or regulatory proceedings could, individually or in the aggregate, cause the Company to incur substantial liabilities or impact its operations in such a way that may have a material adverse effect upon the Company's business, financial condition or results of operations. Furthermore, any future lawsuits, claims, disputes, or legal or regulatory proceedings may also consume substantial amounts of the Company's financial and managerial resources and might result in adverse publicity, regardless of the ultimate outcome. In addition, an unfavorable outcome in one or more of these cases could

cause the Company to change its compensation plans for its employees, which could have a material adverse effect upon the Company's business.

The Company faces risks in operating internationally. The Company depends on operations in international markets, including Europe, for a significant portion of its business. In the past several years, the European market experienced economic uncertainty, which adversely affected, and the return of which may in the future adversely affect, the Company's operations in Europe. In particular, Brexit has contributed to, and may continue to contribute to, European economic, market and regulatory uncertainty and could adversely affect European or worldwide economic, market, regulatory, or political conditions. To the extent that adverse economic conditions and uncertainty in Europe (related to Brexit or otherwise) worsen, demand for the Company's services may decline, which could significantly harm its business and results of operations. In addition, these international operations are subject to a number of risks, including general political and economic conditions in those foreign countries, the burden of complying with various foreign laws and technical standards and unpredictable changes in foreign regulations, U.S. legal requirements governing U.S. companies operating in foreign countries, legal and cultural differences in the conduct of business, potential adverse tax consequences and difficulty in staffing and managing international operations. In addition, the Company's business may be affected by foreign currency exchange fluctuations. In particular, the Company is subject to risk in translating its results in foreign currencies into the U.S. dollar. If the value of the U.S. dollar strengthens relative to other currencies, the Company's reported income from these operations could decrease. The value of the U.S. dollar has recently strengthened considerably against a number of major foreign currencies, and a continuation or extension of this strength relative to these other currencies could adversely impact the Company's reported income from its international markets and cause its revenue in such markets, when translated into U.S. dollars, to decline.

The Company could also be exposed to fines and penalties under U.S. or local jurisdiction trade sanctions and controls as well as laws prohibiting corrupt payments to governmental officials. Although the Company has implemented policies and procedures designed to ensure compliance with these laws, it cannot be sure that its employees, contractors or agents will not violate such policies. Any such violations could materially damage the Company's reputation, brand, business and operating results. Further, changes in U.S. laws and policies governing foreign trade or investment and use of foreign operations or workers, and any negative sentiments towards the United States as a result of such changes, could adversely affect the Company's operations.

Government regulations may result in prohibition or restriction of certain types of employment services or the imposition of additional licensing or tax requirements that may reduce the Company's future earnings. In many jurisdictions in which the Company operates, the employment services industry is heavily regulated. For example, governmental regulations in some countries restrict the length of contracts and the industries in which the Company's employees may be used. In other countries, special taxes, fees or costs are imposed in connection with the use of its employees. Additionally, trade unions in some countries have used the political process to target the industry, in an effort to increase the regulatory burden and expense associated with offering or utilizing temporary staffing solutions.

The countries in which we operate may, among other things:

- create additional regulations that prohibit or restrict the types of employment services that the Company currently provides;
- require new or additional benefits be paid to the Company's employees;
- require the Company to obtain additional licensing to provide employment services; or
- increase taxes, such as sales or value-added taxes, payable by the providers of temporary workers.

Any future regulations may have a material adverse effect on the Company's business and financial results because they may make it more difficult or expensive for the Company to continue to provide employment services. Additionally, as the Company expands existing service offerings, adds new service offerings, or enters new markets, it may become subject to additional restrictions and regulations which may impede its business, increase costs and impact profitability.

The Company may be unable to find sufficient candidates for its staffing business. The Company's staffing services business consists of the placement of individuals seeking employment. There can be no assurance that candidates for employment will continue to seek employment through the Company. Candidates generally seek temporary or regular positions through multiple sources, including the Company and its competitors. Unemployment in the United States has been low in the past couple of years and has recently decreased further; some economists have speculated that in certain markets, the U.S. could be at or near full employment. This phenomenon has made finding sufficient eligible candidates to meet employers' demands more challenging and further increases in the employment rates could compound these difficulties. Any shortage of candidates could materially adversely affect the Company.

The Company operates in a highly competitive business and may be unable to retain clients or market share. The staffing services business is highly competitive and, because it is a service business, the barriers to entry are quite low. There

are many competitors, some of which have greater resources than the Company, and new competitors are entering the market all the time. In addition, long-term contracts form a negligible portion of the Company's revenue. Therefore, there can be no assurance that the Company will be able to retain clients or market share in the future. Nor can there be any assurance that the Company will, in light of competitive pressures, be able to remain profitable or, if profitable, maintain its current profit margins.

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

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

The Company's business is subject to extensive government regulation and a failure to comply with regulations could harm its business. The Company's business is subject to regulation or licensing in many states in the U.S. and in certain foreign countries. While the Company has had no material difficulty complying with regulations in the past, there can be no assurance that the Company will be able to continue to obtain all necessary licenses or approvals or that the cost of compliance will not prove to be material. Any inability of the Company to comply with government regulation or licensing requirements could materially adversely affect the Company. Further, changes to existing regulation or licensing requirements could impose additional costs and other burdens or limitations on the Company's operations. In addition, the Company's temporary services business entails employing individuals on a temporary basis and placing such individuals in clients' workplaces. Increased government regulation of the workplace or of the employer-employee relationship, or judicial or administrative proceedings related to such regulation, could materially adversely affect the Company. In addition, to the extent that government regulation imposes increased costs upon the Company, such as unemployment insurance taxes, there can be no assurance that such costs will not adversely impact the Company's profit margins. Further, lawsuits or other proceedings related to the Company's compliance with government regulations or licensing requirements could materially adversely affect the Company. For example, the Company is currently named as a defendant in litigation challenging its compliance with the Fair Credit Reporting Act. It is not possible to predict the outcome of such litigation; however, such litigation or any future lawsuits or proceedings related to the Company's compliance with government regulation or licensing requirements could consume substantial amounts of the Company's financial and managerial resources and might result in adverse publicity, regardless of the ultimate outcome of any such lawsuits or other proceedings. An unfavorable outcome with respect to such litigation or any future lawsuits or proceedings could, individually or in the aggregate, cause the Company to incur substantial liabilities that may have a material adverse effect upon the Company's business, financial condition or results of operations.

Health care reform could increase the costs of the Company's temporary staffing operations. In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the "PPACA") was signed into law in the United States. In 2015, the Company redesigned its employee benefits to offer health insurance coverage to its temporary candidates in order to meet the requirements of the PPACA's employer mandate.

It is likely that President Trump and the U.S. Congress will continue to seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the PPACA. President Trump has issued multiple executive orders in support of repealing the PPACA, in whole or in part, and the U.S. Congress has made several attempts to repeal or modify the PPACA. It is unclear at this point what the scope of any future such legislation will be and when it will become effective. Because of the uncertainty surrounding this replacement health care reform legislation, we cannot predict with any certainty the likely impact of the PPACA's repeal or the adoption of any other health care reform legislation on the Company's financial condition or operating results. Whether or

not there is alternative health care legislation enacted in the U.S., there is likely to be significant disruption to the health care market in the coming months and years and the costs of the Company's health care expenditures may increase.

The Company's computer and communications hardware and software systems are vulnerable to damage and interruption. The Company's ability to manage its operations successfully is critical to its success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems, some of which are managed by third-party vendors. The Company's primary computer systems and operations are vulnerable to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, phishing and malware attacks, catastrophic events and errors in usage by the Company's employees and those of the Company's vendors. The Company has been subject to cyberattacks in the past, including phishing and malware incidents, and although no such attack has had a material adverse effect on its business, this may not be the case with future attacks. In particular, the Company's employees or vendors may have access or exposure to personally identifiable or otherwise confidential information and customer data and systems, the misuse of which could result in legal liability. Cyber-attacks, including attacks motivated by grievances against the business services industry in general or against the Company in particular, may disable or damage its systems. It is possible that the Company's security controls or those of its third-party vendors over personal and other data and other practices it follows may not prevent the improper access to or disclosure of personally identifiable or otherwise confidential information. Such disclosure or damage to the Company's systems could harm its reputation and subject it to government sanctions and liability under its contracts and laws that protect personal data and confidential information, resulting in increased costs or loss of revenue. The potential risk of security breaches and cyber-attacks may increase as the Company introduces new service offerings.

Changes in data privacy and protection laws and regulations in respect of control of personal information could increase the Company's costs or otherwise adversely impact its operations. In the ordinary course of business, the Company collects, uses, and retains personal information from its employees, employment candidates, and contractors, including, without limitation, full names, government-issued identification numbers, addresses, birth dates, and payroll-related information. The possession and use of personal information in conducting the Company's business subjects it to a variety of complex and evolving domestic and foreign laws and regulations regarding data privacy, protection and security, which, in many cases, apply not only to third-party transactions, but also to transfers of information among the Company and its subsidiaries. For example, the European Union's General Data Protection Regulation ("GDPR"), which became effective in May 2018, imposes stringent operational requirements for entities processing personal information, such as strong safeguards for data transfers to countries outside the European Union and strong enforcement authorities and mechanisms. Complying with the enhanced obligations imposed by the GDPR and other current and future laws and regulations relating to data transfer, residency, privacy and protection has increased and may continue to increase the Company's operating costs and require significant management time and attention, while any failure by the Company or its subsidiaries to comply with applicable laws could result in governmental enforcement actions, fines, and other penalties that could potentially have an adverse effect on the Company's operations and reputation.

Failure to maintain adequate financial and management processes and controls could lead to errors in the Company's financial reporting. Failure to maintain adequate financial and management processes and controls could lead to errors in the Company's financial reporting. If the Company's management is unable to certify the effectiveness of its internal controls or if its independent registered public accounting firm cannot render an opinion on the effectiveness of its internal control over financial reporting, or if material weaknesses in the Company's internal controls are identified, the Company could be subject to regulatory scrutiny and a loss of public confidence. In addition, if the Company does not maintain adequate financial and management personnel, processes and controls, it may not be able to accurately report its financial performance on a timely basis, which could cause its stock price to fall.

Failure to identify and respond to risk issues in a timely manner could have a material adverse effect on our business. Although we have processes in place to attempt to identify and respond to risk issues in a timely manner, our efforts may not be sufficient. Further, the Company's culture may not sufficiently encourage timely identification and escalation of significant risk issues.

The Company's results of operations and ability to grow could be materially negatively affected if it cannot successfully keep pace with technological changes impacting the development and implementation of its services and the evolving needs of its clients. The Company's success depends on its ability to keep pace with rapid technological changes affecting both the development and implementation of its services and the staffing needs of its clients. Technological advances such as artificial intelligence, machine learning, and automation are impacting industries served by all our lines of business. In addition, the Company's business relies on a variety of technologies, including those that support hiring and tracking, order management, billing, and client data analytics. If the Company does not sufficiently invest in new technology and industry developments, appropriately implement new technologies, or evolve its business at sufficient speed and scale in response to such

developments, or if it does not make the right strategic investments to respond to these developments, the Company's services, results of operations, and ability to develop and maintain its business could be negatively affected.

The demand for the Company's services related to Sarbanes-Oxley or other regulatory compliance may decline. The operations of both the staffing services business and *Protiviti* include services related to Sarbanes-Oxley and other regulatory compliance. There can be no assurance that there will be ongoing demand for these services. There are a number of proposals currently being considered by the U.S. Congress to further delay or, in some cases, remove the requirements of Sarbanes-Oxley for a number of public companies. Further, many analysts are expecting the U.S. Congress and President Trump to seek to repeal or modify legislation that is viewed as having over-regulated certain sectors of the U.S. economy and decreased the incentive for U.S. companies to go public and their ability to effectively compete with foreign competition. These or other similar modifications of the regulatory requirements could decrease demand for *Protiviti's* services.

Long-term contracts do not comprise a significant portion of the Company's revenue. Because long-term contracts are not a significant part of the Company's staffing services business, future results cannot be reliably predicted by considering past trends or extrapolating past results. Additionally, the Company's clients will frequently enter into non-exclusive arrangements with several firms, which the client is generally able to terminate on short notice and without penalty. The nature of these arrangements further exacerbates the difficulty in predicting our future results.

U.S. federal tax regulations and interpretations could adversely affect the Company. On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was signed into law. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's Consolidated Financial Statements and the Notes thereto contained in Item 8. Financial Statements and Supplementary Data. The TCJA contains significant changes to corporate taxation, including the reduction of the corporate tax rate from 35% to 21% beginning in 2018, limitation for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), and modifying or repealing many business deductions (including the ability to deduct executive compensation expenses in excess of \$1 million in virtually all instances). Notwithstanding the reduction in the corporate income tax rate, the overall impact of these changes on the Company's results of operations is uncertain and will likely evolve as new regulations and interpretations relating to the TCJA are implemented. In addition, various political figures have pledged their support to overturning or modifying key aspects of the TCJA which could further increase the uncertainty relating to the impact of this or any future tax legislation on the Company's results of operations.

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

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

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

The Company's headquarters operations are located in Menlo Park and San Ramon, California. As of December 31, 2018, placement activities were conducted through 324 offices located in the United States, Canada, the United Kingdom, Belgium, Brazil, France, the Netherlands, Germany, Luxembourg, Switzerland, Japan, China, Singapore, Australia, New Zealand, Austria, the United Arab Emirates, and Chile. As of December 31, 2018, *Protiviti* had 62 offices in the United States, Canada,

Australia, China, France, Germany, Italy, the Netherlands, Japan, Singapore, India and the United Kingdom. All of the offices are leased.

Item 3. Legal Proceedings

On March 23, 2015, Plaintiff Jessica Gentry, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, filed a complaint against the Company in the Superior Court of California, San Francisco County, which was subsequently amended on October 23, 2015. The complaint alleges that a putative class of current and former employees of the Company working in California since March 13, 2010 were denied compensation for the time they spent interviewing “for temporary and permanent employment opportunities” as well as performing activities related to the interview process. Gentry seeks recovery on her own behalf and on behalf of the putative class in an unspecified amount for this allegedly unpaid compensation. Gentry also seeks recovery of an unspecified amount for the alleged failure of the Company to provide her and the putative class with accurate wage statements. Gentry also seeks an unspecified amount of other damages, attorneys’ fees, and statutory penalties, including penalties for allegedly not paying all wages due upon separation to former employees and statutory penalties on behalf of herself and other allegedly “aggrieved employees” as defined by PAGA. On January 4, 2016, the Court denied a motion by the Company to compel all of Gentry’s claims, except the PAGA claim, to individual arbitration. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding and, accordingly, no amounts have been provided in the Company’s Financial Statements. The Company believes it has meritorious defenses to the allegations and the Company intends to continue to vigorously defend against the litigation.

On April 6, 2018, Plaintiff Shari Dorff, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, filed a complaint against the Company in the Superior Court of California, County of Los Angeles. In addition to certain claims individual to Plaintiff Dorff, the complaint alleges that salaried recruiters based in California have been misclassified as exempt employees and seeks an unspecified amount for: unpaid wages resulting from such alleged misclassification; alleged failure to provide a reasonable opportunity to take meal periods and rest breaks; alleged failure to pay wages on a timely basis both during employment and upon separation; alleged failure to comply with California requirements regarding wage statements and record-keeping; and alleged improper denial of expense reimbursement. Plaintiff Dorff also seeks an unspecified amount of other damages, attorneys’ fees, and penalties, including but not limited to statutory penalties on behalf of herself and other allegedly “aggrieved employees” as defined by California’s Labor Code Private Attorney General Act (“PAGA”). At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding and, accordingly, no amounts have been provided in the Company’s Financial Statements. The Company believes it has meritorious defenses to the allegations and the Company intends to continue to vigorously defend against the litigation.

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

Item 4. Mine Safety Disclosure

Not applicable.

PART II

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

Market Price, Dividends and Related Matters

The Company’s Common Stock is listed for trading on the New York Stock Exchange under the symbol “RHI”. On January 31, 2019, there were 1,210 holders of record of the Common Stock.

Issuer Purchases of Equity Securities

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under Publicly Announced Plans (b) |
|--|---|------------------------------------|---|--|
| October 1, 2018 to October 31, 2018 | 400,000 | \$ 59.52 | 400,000 | 8,665,902 |
| November 1, 2018 to November 30, 2018 | 158,863 | \$ 59.88 | 158,863 | 8,507,039 |
| December 1, 2018 to December 31, 2018 | 1,881,936 (a) | \$ 57.44 | 1,800,000 | 6,707,039 |
| Total October 1, 2018 to December 31, 2018 | 2,440,799 | | 2,358,863 | |

- (a) Includes 81,936 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) 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 111,292,961 shares have been repurchased as of December 31, 2018.

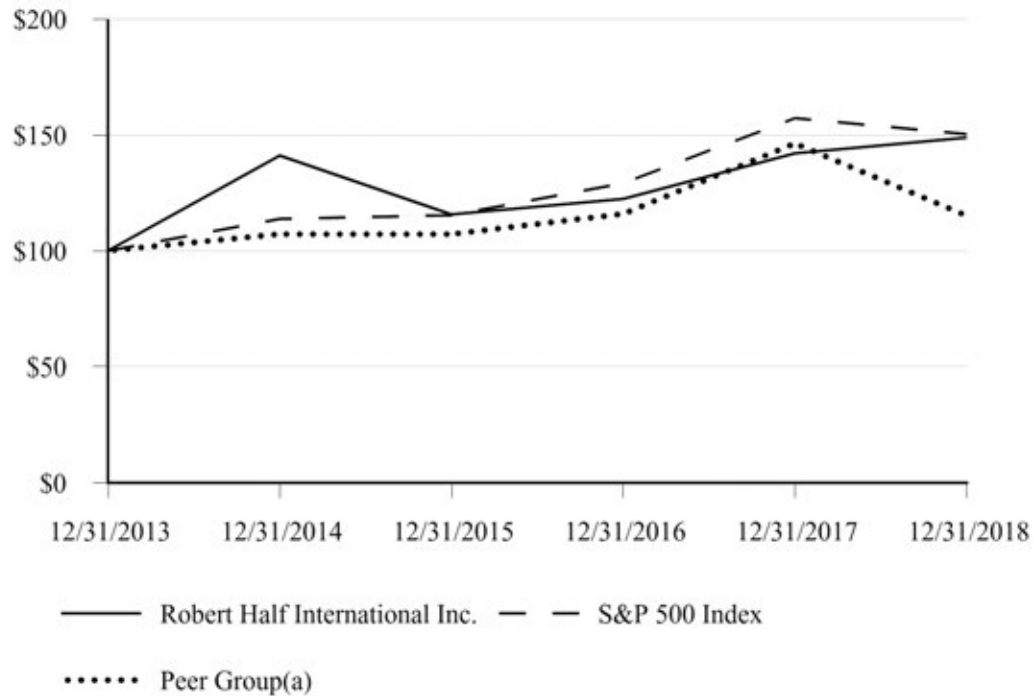
Equity Compensation Plan Information

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights A | Weighted average exercise price of outstanding options, warrants and rights B | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) C |
|--|--|---|---|
| Equity compensation plans approved by security holders | — | — | 3,151,983 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | — | — | 3,151,983 |

Since May 2005, all grants have been made pursuant to the Stock Incentive Plan, which was approved by stockholders in May 2005 and re-approved in May 2008, May 2011, May 2013, and May 2014. Such plan authorizes the issuance of stock options, restricted stock, stock units and stock appreciation rights to directors, executive officers and employees.

Stock Performance Graph

The following graph compares, through December 31, 2018, the cumulative total return of the Company's Common Stock, an index of certain publicly traded employment services companies, and the S&P 500. The graph assumes the investment of \$100 at the beginning of the period depicted in the chart and reinvestment of all dividends. The information presented in the graph was obtained by the Company from outside sources it considers to be reliable but has not been independently verified by the Company.



- (a) This index represents the cumulative total return of the Company and the following corporations providing temporary or permanent employment services: Kelly Services, Inc.; Kforce Inc.; ManpowerGroup; and Resources Connection Inc.

Item 6. Selected Financial Data

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

| | Years Ended December 31, | | | | |
|---|--------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (in thousands) | | | | |
| Income Statement Data: | | | | | |
| Net service revenues | \$5,800,271 | \$5,266,789 | \$5,250,399 | \$5,094,933 | \$4,695,014 |
| Direct costs of services, consisting of payroll, payroll taxes, benefit costs and reimbursable expenses | 3,390,257 | 3,102,977 | 3,089,723 | 2,980,462 | 2,772,098 |
| Gross margin | 2,410,014 | 2,163,812 | 2,160,676 | 2,114,471 | 1,922,916 |
| Selling, general and administrative expenses | 1,821,089 | 1,646,532 | 1,606,217 | 1,533,799 | 1,425,734 |
| Amortization of intangible assets | 1,705 | 1,563 | 1,237 | 192 | 557 |
| Interest income, net | (4,382) | (1,799) | (888) | (550) | (724) |
| Income before income taxes | 591,602 | 517,516 | 554,110 | 581,030 | 497,349 |
| Provision for income taxes | 157,314 | 226,932 | 210,721 | 223,234 | 191,421 |
| Net income | <u>\$ 434,288</u> | <u>\$ 290,584</u> | <u>\$ 343,389</u> | <u>\$ 357,796</u> | <u>\$ 305,928</u> |

| | Years Ended December 31, | | | | |
|---|--|---------|---------|---------|---------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (in thousands, except per share amounts) | | | | |
| Net Income Per Share: | | | | | |
| Basic | \$ 3.60 | \$ 2.34 | \$ 2.68 | \$ 2.72 | \$ 2.28 |
| Diluted | \$ 3.57 | \$ 2.33 | \$ 2.67 | \$ 2.69 | \$ 2.26 |
| Shares: | | | | | |
| Basic | 120,513 | 124,152 | 127,991 | 131,749 | 134,358 |
| Diluted | 121,602 | 124,892 | 128,766 | 132,930 | 135,541 |
| Cash Dividends Declared Per Share | \$ 1.12 | \$.96 | \$.88 | \$.80 | \$.72 |

| | December 31, | | | | |
|---|----------------|-------------|-------------|-------------|-------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (in thousands) | | | | |
| Balance Sheet Data: | | | | | |
| Total assets | \$1,903,097 | \$1,867,454 | \$1,777,971 | \$1,671,044 | \$1,620,830 |
| Notes payable and other indebtedness, less current portion | \$ 457 | \$ 657 | \$ 840 | \$ 1,007 | \$ 1,159 |
| Stockholders' equity | \$1,063,198 | \$1,105,265 | \$1,086,599 | \$1,003,781 | \$ 979,858 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain information contained in Management's Discussion and Analysis and in other parts of this report may be deemed forward-looking statements regarding events and financial trends that may affect the Company's future operating results or financial positions. These statements may be identified by words such as "estimate", "forecast", "project", "plan", "intend", "believe", "expect", "anticipate", or variations or negatives 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 legislation 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. Further information regarding these and other risks and uncertainties is contained in Item 1A. "Risk Factors."

Executive Overview

Demand for the Company's temporary and consultant 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 year ended December 31, 2018, were positively impacted by improving global economic conditions. Annual net service revenues reached \$5.80 billion in 2018, an increase of 10% from the prior year. Full-year 2018 net income increased to \$434 million and diluted net income per share increased to \$3.57. All three of the Company's reportable segments experienced revenue growth, led by risk consulting and internal audit services and permanent placement staffing, both of which increased 17% in 2018 on an as reported basis compared to last year.

We believe that the Company is well positioned in the current macroeconomic environment. The United States economic backdrop during 2018 was conducive to growth for the Company as real gross domestic product ("GDP") grew an estimated 2.6%, while the unemployment rate declined from 4.1% in December 2017 to 3.9% in December 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 U.S. labor market remains robust, with significant demand due to talent shortages across our professional disciplines. 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 strong demand for its consulting and internal audit solutions. Financial services continues to be Protiviti's biggest industry sector. Protiviti has expanded its service offerings and continues to nurture and grow a loyal client base.

We monitor various economic indicators and business trends in all of the countries in which we operate to anticipate demand for the Company's services. We evaluate these trends to determine the appropriate level of investment, including personnel, which will best position the Company for success in the current and future global macroeconomic environment. The Company's investments in headcount are typically structured to proactively support and align with expected revenue growth trends. As such, during 2018, we added headcount in all of our lines of business compared to prior year-end levels.

We have limited visibility into future revenues not only due to the dependence on macroeconomic conditions noted above, but also because of the relatively short duration of the Company's client engagements. Accordingly, we typically assess headcount and other investments on at least a quarterly basis. That said, based on current trends and conditions, we expect headcount levels for our full-time staff to be modestly higher for each of our reporting segments throughout the first quarter of 2019.

Capital expenditures in 2018 totaled \$43 million, approximately 41% of which represented investments in software initiatives and technology infrastructure, both of which are important to the Company's future growth opportunities. During 2018, we continued to invest in digital technology initiatives designed to enhance our service offerings to both clients and candidates. Capital expenditures also included amounts spent on tenant improvements and furniture and equipment in the Company's leased offices. We currently expect that 2019 capitalized expenditures will range from \$60 million to \$70 million, of which \$35 million to \$45 million relates to software initiatives and technology infrastructure, including capitalized costs relating to the implementation of cloud computing arrangements.

Critical Accounting Policies and Estimates

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

Revenue Recognition. Net service revenues as presented on the Consolidated Statements of Operations represent services rendered to customers less sales adjustments and allowances. Reimbursements, including those related to travel and out-of-pocket expenses, are also included in net service revenues, and equivalent amounts of reimbursable expenses are included in direct costs of services. 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.

Temporary and consultant staffing revenues are recognized when the services are rendered by the Company's temporary employees. Permanent placement staffing revenues are recognized when employment candidates accept offers of permanent employment. The Company has a substantial history of estimating the effect of permanent placement candidates who do not remain with its clients through the 90-day guarantee period. Allowances are established to estimate these losses. Risk consulting and internal audit services are generally provided on a time-and-material basis or fixed-fee basis. Revenues from time-and-material and fixed-fee arrangements are recognized over time using a proportional performance method as hours are incurred relative to total estimated hours for the engagement. 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. The Company periodically evaluates the need to provide for any losses on these projects, and losses are recognized when it is probable that a loss will be incurred.

Income Taxes. The Company's operations are subject to U.S. federal, state and local, and foreign income taxes. In establishing its deferred income tax assets and liabilities and its provision for income taxes, the Company makes judgments and interpretations based on the enacted tax laws that are applicable to its operations in various jurisdictions. Deferred tax assets and liabilities are measured and recorded using current enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled. The likelihood of a material change in the Company's expected realization of its deferred tax assets is dependent on future taxable income and the effectiveness of its tax planning in the various relevant jurisdictions.

On December 22, 2017, the President signed TCJA into law. Effective January 1, 2018, among other changes, TCJA reduced the federal corporate tax rate to 21 percent, provided for a deemed repatriation and taxation at reduced rates of certain foreign earnings (a "transition tax"), and established new mechanisms to tax certain foreign earnings going forward. Similar to other large multinational companies, TCJA has wide ranging implications for the Company.

In December 2017, the SEC issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which allowed the Company to record provisional amounts during a measurement period not to extend

beyond one year of the enactment date. The Company completed its TCJA analysis and recorded its final adjustments, which were not material, in the fourth quarter of 2018.

The Company also evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. Management evaluates all positive and negative evidence and uses judgment regarding past and future events, including operating results, to help determine when it is more likely than not that all or some portion of the deferred tax assets may not be realized. When appropriate, a valuation allowance is recorded against deferred tax assets to offset future tax benefits that may not be realized. Valuation allowances of \$23.1 million and \$20.2 million were recorded as of December 31, 2018 and 2017, respectively. The valuation allowances recorded relate primarily to net operating losses in certain foreign operations. If such losses are ultimately utilized to offset future operating income, the Company will recognize a tax benefit up to the full amount of the related valuation reserve.

While management believes that its judgments and interpretations regarding income taxes are appropriate, significant differences in actual experience may materially affect the future financial results of the Company.

Stock-based Compensation. 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.

The Company recognizes compensation expense equal to the grant-date fair value for all stock-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to performance conditions, in which case the Company recognizes compensation expense over the requisite service period of each separate vesting tranche. The Company determines the grant-date fair value of its restricted stock and stock unit awards using the fair market value of its stock on the grant date, unless the awards are subject to market conditions, in which case the Company utilizes a binomial-lattice model (i.e., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to determine the stock-based compensation expense.

No stock appreciation rights have been granted under the Company's existing stock plans. The Company has not granted any options to purchase common stock since 2006.

For the years ended December 31, 2018, 2017 and 2016, compensation expense related to restricted stock and stock units was \$45.0 million, \$42.2 million and \$42.7 million, respectively, of which \$12.2 million, \$11.4 million and \$11.0 million was related to grants made in those respective years. Based on the Company's results for the year ended December 31, 2018, a one-percentage point deviation in the estimated forfeiture rates would have resulted in a \$0.4 million increase or decrease in compensation expense related to restricted stock and stock units.

Recent Accounting Pronouncements

See Note B—"New Accounting Pronouncements" to the Company's Consolidated Financial Statements included under Part II—Item 8 of this report.

Results of Operations

Demand for the Company's temporary and consultant 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, results of operations for the year ended December 31, 2018, were positively impacted by improving global economic conditions. 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 forecasted with certainty. We believe the Company is well positioned in the current macroeconomic environment.

The Company's temporary and permanent staffing business has 324 offices in 42 states, the District of Columbia and 17 foreign countries, while Protiviti has 62 offices in 23 states and 11 foreign countries.

Non-GAAP Financial Measures

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

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

In order to calculate constant currency revenue growth rates, as reported amounts are retranslated using foreign currency exchange rates from the prior year's comparable period. Management then calculates a global, weighted-average number of billing days for each reporting period based upon input from all countries and all lines of business. In order to remove the fluctuations caused by comparable periods having different billing days, the Company calculates same billing day revenue growth rates by dividing each comparative period's reported revenues by the calculated number of billing days for that period to arrive at a per billing day amount. Same billing day growth rates are then calculated based upon the per billing day amounts. In order to remove the fluctuations caused by the impact of certain intercompany adjustments, applicable comparative period revenues are reclassified to conform with the current period presentation. The term "as adjusted" means that the impact of different billing days, constant currency fluctuations, and certain intercompany adjustments are removed from the revenue growth rate calculation.

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

Refer to Item 7a. "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.

Years ended December 31, 2018 and 2017

Revenues. The Company's revenues were \$5.80 billion for the year ended December 31, 2018, increasing by 10.1% compared to \$5.27 billion for the year ended December 31, 2017. Revenues from foreign operations represented 24% and 22% of total revenues for the years ended December 31, 2018 and 2017, respectively. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing and risk consulting and internal audit services. In 2018, revenues for all three of the Company's reportable segments were up compared to 2017. Revenue growth was strongest internationally, most notably within Europe. Permanent placement staffing and risk consulting and internal audit services continued to post strong growth rates. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing revenues were \$4.33 billion for the year ended December 31, 2018, increasing by 8.0% compared to revenues of \$4.01 billion for the year ended December 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 an as adjusted basis, temporary and consultant staffing revenues increased 7.9% for 2018, compared to 2017, due primarily to a 4.1% increase in average bill rates and an increase in the number of hours worked by the Company's temporary employees. In the U.S., 2018 revenues increased 5.8% on an as reported basis and 5.5% on an as adjusted basis, compared to 2017. For the Company's international operations, 2018 revenues increased 16.0% on an as reported basis and 17.0% on an as adjusted basis, compared to 2017.

Permanent placement staffing revenues were \$512 million for the year ended December 31, 2018, increasing by 16.6% compared to revenues of \$439 million for the year ended December 31, 2017. Key drivers of permanent placement staffing revenues consist of the number of candidate placements and average fees earned per placement. On an as adjusted basis, permanent placement staffing revenues increased 16.0% for 2018 compared to 2017, driven by increases in number of placements and average fees earned per placement. In the U.S., 2018 revenues increased 16.4% on an as reported basis and 16.1% on an as adjusted basis, compared to 2017. For the Company's international operations, 2018 revenues increased 17.0% on an as reported basis, and increased 16.0% on an as adjusted basis, compared to 2017. Historically, demand for permanent placement services is even more sensitive to economic and labor market conditions than demand for temporary and consulting staffing and this is expected to continue.

Risk consulting and internal audit services revenues were \$958 million for the year ended December 31, 2018, increasing by 17.3% compared to revenues of \$817 million for the year ended December 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 an as adjusted basis, risk consulting and internal audit services revenues increased 13.2% for 2018 compared to 2017, driven primarily by increases in billable hours and average hourly billing rates. In the U.S., 2018 revenues increased 12.0% on an as reported basis, or 11.8% on an as adjusted basis, compared to 2017. For the Company's international operations, 2018 revenues increased 42.1% on an as reported basis, or 19.2% on an as adjusted basis, compared to 2017. The international year-over-year increases were primarily driven by strong revenue performance in Europe and Australia.

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

| | <u>Global</u> | <u>United States</u> | <u>International</u> |
|--|---------------|----------------------|----------------------|
| Temporary and consultant staffing | | | |
| As Reported. | 8.0 % | 5.8% | 16.0% |
| Billing Days Impact | -0.2 % | -0.3% | 0.1% |
| Currency Impact | -0.6 % | — | -2.6% |
| Intercompany Adjustments | 0.7 % | — | 3.5% |
| As Adjusted. | <u>7.9 %</u> | <u>5.5%</u> | <u>17.0%</u> |
| Permanent placement staffing | | | |
| As Reported. | 16.6 % | 16.4% | 17.0% |
| Billing Days Impact | -0.2 % | -0.3% | 0.3% |
| Currency Impact | -0.4 % | — | -1.3% |
| As Adjusted. | <u>16.0 %</u> | <u>16.1%</u> | <u>16.0%</u> |
| Risk consulting and internal audit services | | | |
| As Reported. | 17.3 % | 12.0% | 42.1% |
| Billing Days Impact | -0.2 % | -0.2% | 0.3% |
| Currency Impact | -0.4 % | — | -2.0% |
| Intercompany Adjustments | -3.5 % | — | -21.2% |
| As Adjusted. | <u>13.2 %</u> | <u>11.8%</u> | <u>19.2%</u> |

Gross Margin. The Company's gross margin dollars were \$2.41 billion for the year ended December 31, 2018, up 11.4% from \$2.16 billion for the year ended December 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 \$1.63 billion for the year ended December 31, 2018, up 9.1% from \$1.49 billion for the year ended December 31, 2017. As a percentage of revenues, gross margin dollars for temporary and consultant staffing were 37.6% in 2018, up from 37.2% in 2017. This year-over-year improvement in gross margin percentage was primarily attributable to higher pay-bill spreads and 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 \$511 million for the year ended December 31, 2018, up 16.6% from \$438 million for the year ended December 31, 2017. Because reimbursable expenses for permanent placement staffing services are de minimis, the increase in gross margin dollars is substantially explained by the increase in 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 \$269 million for the year ended December 31, 2018, up 16.2% from \$232 million for the year ended December 31, 2017. As a percentage of revenues, gross margin dollars for risk consulting and internal audit services were 28.1% in 2018, down from 28.4% in 2017. The decline in 2018 gross margin percentage compared to 2017 was primarily attributable to increases in both pay rates for professional staff and headcount.

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 \$1.82 billion for the year ended December 31, 2018, up 10.6% from \$1.65 billion for the year ended December 31, 2017. As a percentage of revenues, the Company's selling, general and administrative expenses were 31.4% for 2018, up from 31.3% for 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 \$1.22 billion for the year ended December 31, 2018, increasing by 7.6% from \$1.14 billion for the year ended December 31, 2017. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing were 28.3% in 2018, down slightly from 28.4% in 2017.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$420 million for the year ended December 31, 2018, increasing by 16.5% from \$361 million for the year ended December 31, 2017. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 82.1% for both the years ended December 31, 2018 and 2017.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$176 million for the year ended December 31, 2018, increasing by 19.1% from \$148 million for the year ended December 31, 2017. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 18.4% in 2018, up from 18.1% in 2017. For 2018 compared to 2017, the increase in selling, general and administrative expenses as a percentage of revenue is primarily due to an increase in variable overhead costs.

Operating Income. The Company's total operating income was \$589 million, or 10.2% of revenues, for the year ended December 31, 2018, up 13.9% from \$517 million, or 9.8% of revenues, for the year ended December 31, 2017. For the Company's temporary and consultant staffing division, operating income was \$405 million, or 9.3% of applicable revenues, up 13.8% from \$356 million, or 8.9% of applicable revenues, in 2017. For the Company's permanent placement staffing division, operating income was \$91 million, or 17.7% of applicable revenues, up 16.9% from operating income of \$77 million, or 17.7% of applicable revenues, in 2017. For the Company's risk consulting and internal audit services division, operating income was \$93 million, or 9.7% of applicable revenues, up 11.2% from operating income of \$84 million, or 10.3% of applicable revenues, in 2017.

Provision for income taxes. The provision for income taxes was 26.6% and 43.9% for the years ended December 31, 2018 and 2017, respectively. The lower 2018 tax rate is primarily due to the reduction of the U.S. federal corporate income tax rate from 35% to 21% and a prior year \$34 million one-time, non-cash charge to the provision for income taxes related to the enactment of TCJA.

Years ended December 31, 2017 and 2016

Revenues. The Company's revenues were \$5.27 billion for the year ended December 31, 2017, increasing by 0.3% compared to \$5.25 billion for the year ended December 31, 2016. Revenues from foreign operations represented 22% and 20% of total revenues for the years ended December 31, 2017 and 2016, respectively. The Company analyzes its revenues for three reportable segments: temporary and consultant staffing, permanent placement staffing and risk consulting and internal audit services. In 2017, revenues for permanent placement staffing and risk consulting and internal audit services were up and revenues for temporary and consultant staffing were down slightly compared to 2016. Revenue growth was strongest internationally, most notably within Europe. Contributing factors for each reportable segment are discussed below in further detail.

Temporary and consultant staffing revenues were \$4.01 billion for the year ended December 31, 2017, remained essentially flat compared to revenues of \$4.03 billion for the year ended December 31, 2016. Key drivers of temporary and consultant staffing revenues include average hourly bill rates and the number of hours worked by the Company's temporary employees on client engagements. On an as adjusted basis, temporary and consultant staffing revenues decreased 0.3% for 2017, compared to 2016, due primarily to fewer hours worked by the Company's temporary employees, partially offset by a 2.7% increase in average bill rates. In the U.S., 2017 revenues decreased 3.1% on an as reported basis and 2.8% on an as

adjusted basis, compared to 2016. For the Company's international operations, 2017 revenues increased 11.0% on an as reported basis and 10.1% on an as adjusted basis, compared to 2016.

Permanent placement staffing revenues were \$439 million for the year ended December 31, 2017, increasing by 4.7% compared to revenues of \$419 million for the year ended December 31, 2016. Key drivers of permanent placement staffing revenues consist of the number of candidate placements and average fees earned per placement. On an as adjusted basis, permanent placement staffing revenues increased 4.9% for 2017 compared to 2016 due to increases in both the number of placements and average fees per placement. In the U.S., 2017 revenues increased 0.9% on an as reported basis and 1.3% on an as adjusted basis, compared to 2016. For the Company's international operations, 2017 revenues increased 14.1% on an as reported basis, and on an as adjusted basis increased 13.5%, compared to 2016. Historically, demand for permanent placement services is even more sensitive to economic and labor market conditions than demand for temporary and consulting staffing and this is expected to continue.

Risk consulting and internal audit services revenues were \$817 million for the year ended December 31, 2017, increasing by 1.5% compared to revenues of \$804 million for the year ended December 31, 2016. 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 an as adjusted basis, risk consulting and internal audit services revenues increased 1.9% for 2017 compared to 2016, driven primarily by increases in billable hours and billing rates. In the U.S., 2017 revenues remained essentially flat on an as reported basis, and increased 0.3% on an as adjusted basis, compared to 2016. For the Company's international operations, 2017 revenues increased 9.5% on an as reported basis, or 10.2% on an as adjusted basis, compared to 2016.

A reconciliation of the non-GAAP year-over-year revenue growth rates to the as reported year-over-year revenue growth rates for the year ended December 31, 2017, is presented in the following table:

| | <u>Global</u> | <u>United States</u> | <u>International</u> |
|--|---------------|----------------------|----------------------|
| Temporary and consultant staffing | | | |
| As Reported | -0.4% | -3.1% | 11.0% |
| Billing Days Impact | 0.4% | 0.3% | 0.5% |
| Currency Impact | -0.3% | — | -1.4% |
| As Adjusted | <u>-0.3%</u> | <u>-2.8%</u> | <u>10.1%</u> |
| Permanent placement staffing | | | |
| As Reported | 4.7% | 0.9% | 14.1% |
| Billing Days Impact | 0.5% | 0.4% | 0.4% |
| Currency Impact | -0.3% | — | -1.0% |
| As Adjusted | <u>4.9%</u> | <u>1.3%</u> | <u>13.5%</u> |
| Risk consulting and internal audit services | | | |
| As Reported | 1.5% | — | 9.5% |
| Billing Days Impact | 0.4% | 0.3% | 0.4% |
| Currency Impact | — | — | 0.3% |
| As Adjusted | <u>1.9%</u> | <u>0.3%</u> | <u>10.2%</u> |

Gross Margin. The Company's gross margin dollars were \$2.16 billion for both the years ended December 31, 2017 and 2016. 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 \$1.49 billion for the year ended December 31, 2017, down 1.1% from \$1.51 billion for the year ended December 31, 2016. As a percentage of revenues, gross margin dollars for temporary and consultant staffing were 37.2% in 2017, down from 37.5% in 2016. This year-over-year decline in gross margin percentage is primarily attributable to higher workers' compensation costs and other fringe benefit costs. The Company's 2017 results include \$0.9 million in workers' compensation credits, pursuant to third-party

actuarial reviews of the Company's workers' compensation accruals. This compares to a credit of \$5.8 million in the year-ago period.

Gross margin dollars for permanent placement staffing represent revenues less reimbursable expenses. Gross margin dollars for the Company's permanent placement staffing division were \$438 million for the year ended December 31, 2017, up 4.7% from \$419 million for the year ended December 31, 2016. Because reimbursable expenses for permanent placement staffing services are de minimis, the increase in gross margin dollars is substantially explained by the increase in 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 \$232 million for the year ended December 31, 2017, up 0.2% from \$231 million for the year ended December 31, 2016. As a percentage of revenues, gross margin dollars for risk consulting and internal audit services were 28.4% in 2017, down from 28.7% in 2016. The decline in 2017 gross margin percentage compared to 2016 was primarily due to slightly lower staff utilization rates.

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 \$1.65 billion for the year ended December 31, 2017, up 2.5% from \$1.61 billion for the year ended December 31, 2016. As a percentage of revenues, the Company's selling, general and administrative expenses were 31.3% for 2017, up from 30.6% for 2016. 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 \$1.14 billion for the year ended December 31, 2017, up 1.9% from \$1.12 billion for the year ended December 31, 2016. As a percentage of revenues, selling, general and administrative expenses for temporary and consultant staffing were 28.4% in 2017, up from 27.7% in 2016. For 2017 compared to 2016, the increase in selling, general and administrative expenses as a percentage of revenue is primarily due to increases in staff compensation costs and costs expensed related to digital technology initiatives.

Selling, general and administrative expenses for the Company's permanent placement staffing division were \$361 million for the year ended December 31, 2017, up 6.5% from \$339 million for the year ended December 31, 2016. As a percentage of revenues, selling, general and administrative expenses for permanent placement staffing services were 82.1% in 2017, up from 80.7% in 2016. For 2017 compared to 2016, the increase in selling, general and administrative expenses as a percentage of revenue is primarily due to increases in staff compensation costs and costs expensed related to digital technology initiatives.

Selling, general and administrative expenses for the Company's risk consulting and internal audit services division were \$148 million for the year ended December 31, 2017, down 1.7% from \$150 million for the year ended December 31, 2016. As a percentage of revenues, selling, general and administrative expenses for risk consulting and internal audit services were 18.1% in 2017, down from 18.7% in 2016. For 2017 compared to 2016, the decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to decreases in fixed overhead costs.

Operating Income. The Company's total operating income was \$517 million, or 9.8% of revenues, for the year ended December 31, 2017, down 6.7% from \$555 million, or 10.6% of revenues, for the year ended December 31, 2016. For the Company's temporary and consultant staffing division, operating income was \$356 million, or 8.9% of applicable revenues, down 9.7% from \$394 million, or 9.8% of applicable revenues, in 2016. For the Company's permanent placement staffing division, operating income was \$77 million, or 17.7% of applicable revenues, down 2.9% from operating income of \$80 million, or 19.1% of applicable revenues, in 2016. For the Company's risk consulting and internal audit services division, operating income was \$84 million, or 10.3% of applicable revenues, up 3.9% from operating income of \$81 million, or 10% of applicable revenues, in 2016.

Provision for income taxes. The provision for income taxes was 43.9% and 38.0% for the years ended December 31, 2017 and 2016, respectively. The increase is primarily due to the \$34 million one-time, non-cash charge resulting from the recently enacted TCJA.

Liquidity and Capital Resources

The change in the Company's liquidity during the years ended December 31, 2018, 2017 and 2016, is primarily the net effect of funds generated by operations and the funds used for capital expenditures, repurchases of common stock, payment of dividends, and payments to trusts for employee deferred compensation plans.

Cash and cash equivalents were \$277 million, \$295 million, and \$260 million at December 31, 2018, 2017 and 2016, respectively. Operating activities provided \$572 million during the year ended December 31, 2018, offset by \$89 million and \$490 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$453 million during the year ended December 31, 2017, offset by \$78 million and \$353 million of net cash used in investing activities and financing activities, respectively. Operating activities provided \$442 million during the year ended December 31, 2016, offset by \$112 million and \$288 million of net cash used in investing activities and financing activities, respectively.

Operating activities—Net cash provided by operating activities for the year ended December 31, 2018, was \$572 million. This was composed of net income of \$434 million adjusted upward for non-cash items of \$107 million and net cash provided by changes in working capital of \$31 million. Net cash provided by operating activities for the year ended December 31, 2017, was composed of net income of \$291 million adjusted upward for non-cash items of \$160 million and net cash provided by changes in working capital of \$2 million. Net cash provided by operating activities for the year ended December 31, 2016, was composed of net income of \$343 million adjusted upward for non-cash items of \$113 million, offset by net cash used in changes in working capital of \$14 million.

Investing activities—Cash used in investing activities for the year ended December 31, 2018, was \$89 million. This was composed of capital expenditures of \$43 million and deposits to trusts for employee deferred compensation plans of \$46 million. Cash used in investing activities for the year ended December 31, 2017, was \$78 million. This was primarily composed of capital expenditures of \$41 million, deposits to trusts for employee deferred compensation plans of \$36 million, and payment for acquisitions, net of cash acquired, of \$1 million. Cash used in investing activities for the year ended December 31, 2016, was \$112 million. This was primarily composed of capital expenditures of \$83 million, deposits to trusts for employee deferred compensation plans of \$27 million, and payment for an acquisition, net of cash acquired, of \$2 million.

Financing activities—Cash used in financing activities for the year ended December 31, 2018, was \$490 million. This included repurchases of \$354 million in common stock and \$136 million in cash dividends paid to stockholders. Cash used in financing activities for the year ended December 31, 2017, was \$353 million. This included repurchases of \$232 million in common stock and \$121 million in cash dividends paid to stockholders. Cash used in financing activities for the year ended December 31, 2016, was \$288 million. This included repurchases of \$176 million in common stock and \$114 million in cash dividends paid to stockholders, offset by the excess tax benefits from stock-based compensation of \$2 million.

As of December 31, 2018, the Company is authorized to repurchase, from time to time, up to 6.7 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the years ended December 31, 2018, 2017 and 2016, the Company repurchased approximately 5.6 million shares, 4.0 million shares and 4.0 million shares of common stock on the open market for a total cost of \$351 million, \$197 million and \$164 million, 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 years ended December 31, 2018, 2017 and 2016, such repurchases totaled approximately 0.2 million shares, 0.4 million shares and 0.4 million shares at a cost of \$14 million, \$20 million and \$15 million, respectively. Repurchases of shares have been funded with cash generated from operations.

The Company's working capital at December 31, 2018, included \$277 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 February 12, 2019, the Company announced a quarterly dividend of \$.31 per share to be paid to all shareholders of record on February 25, 2019. The dividend will be paid on March 15, 2019.

The Company's cash flows generated from operations are also the primary source for funding various contractual obligations. The table below summarizes the Company's major commitments as of December 31, 2018 (in thousands):

| Contractual Obligations | Payments due by period | | | | |
|-----------------------------|------------------------|---------------|---------------|------------|-----------|
| | 2019 | 2020 and 2021 | 2022 and 2023 | Thereafter | Total |
| Long-term debt obligations | \$ 252 | \$ 505 | \$ — | \$ — | \$ 757 |
| Operating lease obligations | 88,231 | 143,363 | 84,834 | 52,993 | 369,421 |
| Purchase obligations | 57,347 | 52,553 | 4,074 | 9,621 | 123,595 |
| Other liabilities | 1,538 | 1,150 | 813 | 6,767 | 10,268 |
| Total | \$147,368 | \$197,571 | \$ 89,721 | \$ 69,381 | \$504,041 |

Long-term debt obligations consist of promissory notes and related interest as well as other forms of indebtedness issued in connection with certain acquisitions and other payment obligations. Operating lease obligations consist of minimum rental commitments for 2019 and thereafter under non-cancelable leases in effect at December 31, 2018. Purchase obligations consist of purchase commitments primarily related to telecom service agreements, software subscriptions, and computer hardware and software maintenance agreements. Other liabilities consist of asset retirement and deferred compensation obligations.

Item 7A. 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 year ended December 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 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 \$27 million, or 0.5%, in 2018 compared to prior year. The general weakening of the U.S. dollar also affected the reported level of expenses incurred in the Company's foreign operations. Because substantially all of the Company's 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 \$2.5 million, or 0.9%, higher in the year ended December 31, 2018, compared to prior year due to the effect of currency exchange rates.

For the month ended January 31, 2019, the U.S. dollar weakened against the Euro, British pound, Canadian dollar, and Australian dollar. If currency exchange rates were to remain at January 2019 levels throughout 2019, the Company's 2019 full-year reported revenues would be impacted favorably, mostly offset by an unfavorable impact to operating expenses. Thus, the impact to reported net income would likely 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 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 8. Financial Statements and Supplementary Data

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands, except share amounts)

| | December 31, | |
|--|--------------|-------------|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and cash equivalents | \$ 276,579 | \$ 294,753 |
| Accounts receivable, less allowances of \$27,678 and \$33,181 | 794,446 | 732,405 |
| Other current assets | 402,585 | 404,711 |
| Total current assets | 1,473,610 | 1,431,869 |
| Goodwill | 209,958 | 210,885 |
| Other intangible assets, net | 3,149 | 4,946 |
| Property and equipment, net | 125,176 | 144,887 |
| Noncurrent deferred income taxes | 91,204 | 74,867 |
| Total assets | \$1,903,097 | \$1,867,454 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 168,031 | \$ 126,937 |
| Accrued payroll and benefit costs | 638,769 | 612,899 |
| Income taxes payable | 12,536 | 7,877 |
| Current portion of notes payable and other indebtedness | 200 | 183 |
| Total current liabilities | 819,536 | 747,896 |
| Notes payable and other indebtedness, less current portion | 457 | 657 |
| Other liabilities | 19,906 | 13,636 |
| Total liabilities | 839,899 | 762,189 |
| Commitments and Contingencies (Note J) | | |
| 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 119,078,491 and 124,261,458 shares | 119 | 124 |
| Capital surplus | 1,079,188 | 1,064,601 |
| Accumulated other comprehensive (loss) income | (16,109) | 3,507 |
| Retained earnings | — | 37,033 |
| Total stockholders' equity | 1,063,198 | 1,105,265 |
| Total liabilities and stockholders' equity | \$1,903,097 | \$1,867,454 |

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

| | Years Ended December 31, | | |
|---|--------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Net service revenues | \$5,800,271 | \$5,266,789 | \$5,250,399 |
| Direct costs of services, consisting of payroll, payroll taxes, benefit costs and reimbursable expenses | 3,390,257 | 3,102,977 | 3,089,723 |
| Gross margin | 2,410,014 | 2,163,812 | 2,160,676 |
| Selling, general and administrative expenses | 1,821,089 | 1,646,532 | 1,606,217 |
| Amortization of intangible assets | 1,705 | 1,563 | 1,237 |
| Interest income, net | (4,382) | (1,799) | (888) |
| Income before income taxes | 591,602 | 517,516 | 554,110 |
| Provision for income taxes | 157,314 | 226,932 | 210,721 |
| Net income | <u>\$ 434,288</u> | <u>\$ 290,584</u> | <u>\$ 343,389</u> |
| Net income per share : | | | |
| Basic | \$ 3.60 | \$ 2.34 | \$ 2.68 |
| Diluted | \$ 3.57 | \$ 2.33 | \$ 2.67 |
| Shares: | | | |
| Basic | 120,513 | 124,152 | 127,991 |
| Diluted | 121,602 | 124,892 | 128,766 |
| Cash dividends declared per share | \$ 1.12 | \$.96 | \$.88 |

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

| | Years Ended December 31, | | |
|--|---------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| COMPREHENSIVE INCOME: | | | |
| Net income | \$434,288 | \$290,584 | \$343,389 |
| Foreign currency translation adjustments, net of tax | (19,616) | 24,009 | (10,208) |
| Total comprehensive income | <u>\$414,672</u> | <u>\$314,593</u> | <u>\$333,181</u> |

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)

| | Years Ended December 31, | | |
|--|--------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 |
| COMMON STOCK—SHARES: | | | |
| Balance at beginning of period | 124,261 | 127,797 | 131,156 |
| Net issuances of restricted stock | 666 | 918 | 1,039 |
| Repurchases of common stock | (5,849) | (4,454) | (4,405) |
| Exercises of stock options | — | — | 7 |
| Balance at end of period | <u>119,078</u> | <u>124,261</u> | <u>127,797</u> |
| COMMON STOCK—PAR VALUE: | | | |
| Balance at beginning of period | \$ 124 | \$ 128 | \$ 131 |
| Net issuances of restricted stock | 1 | 1 | 1 |
| Repurchases of common stock | (6) | (5) | (4) |
| Exercises of stock options | — | — | — |
| Balance at end of period | <u>\$ 119</u> | <u>\$ 124</u> | <u>\$ 128</u> |
| CAPITAL SURPLUS: | | | |
| Balance at beginning of period | \$1,064,601 | \$1,022,411 | \$ 979,477 |
| Net issuances of restricted stock at par value | (1) | (1) | (1) |
| Cash dividends (\$1.12 per share) | (30,365) | — | — |
| Stock-based compensation expense | 44,953 | 42,191 | 42,699 |
| Exercises of stock options—excess over par value | — | — | 223 |
| Tax impact of equity incentive plans | — | — | 13 |
| Balance at end of period | <u>\$1,079,188</u> | <u>\$1,064,601</u> | <u>\$1,022,411</u> |
| ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME: | | | |
| Balance at beginning of period | \$ 3,507 | \$ (20,502) | \$ (10,294) |
| Foreign currency translation adjustments, net of tax | (19,616) | 24,009 | (10,208) |
| Balance at end of period | <u>\$ (16,109)</u> | <u>\$ 3,507</u> | <u>\$ (20,502)</u> |
| RETAINED EARNINGS: | | | |
| Balance at beginning of period | \$ 37,033 | \$ 84,562 | \$ 34,467 |
| Net income | 434,288 | 290,584 | 343,389 |
| Repurchases of common stock—excess over par value | (364,862) | (217,031) | (178,780) |
| Cash dividends (\$1.12 per share, \$.96 per share and \$.88 per share) | (106,459) | (121,082) | (114,514) |
| Balance at end of period | <u>\$ —</u> | <u>\$ 37,033</u> | <u>\$ 84,562</u> |

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Years Ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$434,288 | \$290,584 | \$343,389 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of intangible assets | 1,705 | 1,563 | 1,237 |
| Depreciation expense | 64,244 | 63,930 | 63,078 |
| Stock-based compensation expense—restricted stock and stock units | 44,953 | 42,191 | 42,699 |
| Excess tax benefits from stock-based compensation | — | — | (1,822) |
| Deferred income taxes | (15,885) | 44,091 | (1,868) |
| Provision for doubtful accounts | 11,914 | 8,022 | 9,192 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Increase in accounts receivable | (86,217) | (17,039) | (15,888) |
| Increase in accounts payable, accrued expenses, accrued payroll and benefit costs | 89,715 | 47,832 | 19,726 |
| Increase (decrease) in income taxes payable, net | 28,900 | (9,655) | (8,246) |
| Change in other assets, net of change in other liabilities | (1,295) | (18,528) | (9,416) |
| Net cash flows provided by operating activities | <u>572,322</u> | <u>452,991</u> | <u>442,081</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Payments for acquisitions, net of cash acquired | — | (1,160) | (2,200) |
| Capital expenditures | (42,484) | (40,753) | (82,956) |
| Payments to trusts for employee deferred compensation plans | (46,025) | (36,584) | (27,079) |
| Net cash flows used in investing activities | <u>(88,509)</u> | <u>(78,497)</u> | <u>(112,235)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repurchases of common stock | (353,509) | (231,724) | (176,031) |
| Cash dividends paid | (136,423) | (121,000) | (114,164) |
| Decrease in notes payable and other indebtedness | (183) | (167) | (154) |
| Excess tax benefits from stock-based compensation | — | — | 1,822 |
| Proceeds from exercises of stock options | — | — | 223 |
| Net cash flows used in financing activities | <u>(490,115)</u> | <u>(352,891)</u> | <u>(288,304)</u> |
| Effect of exchange rate changes on cash and cash equivalents | (11,872) | 12,949 | (5,918) |
| Net (decrease) increase in cash and cash equivalents | (18,174) | 34,552 | 35,624 |
| Cash and cash equivalents at beginning of period | <u>294,753</u> | <u>260,201</u> | <u>224,577</u> |
| Cash and cash equivalents at end of period | <u>\$276,579</u> | <u>\$294,753</u> | <u>\$260,201</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 233 | \$ 278 | \$ 266 |
| Income taxes, net of refunds | \$137,147 | \$190,954 | \$219,415 |
| Non-cash items: | | | |
| Stock repurchases awaiting settlement | \$ 11,359 | \$ — | \$ 14,688 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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”).

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. Such estimates also include allowances for uncollectible accounts receivable, sales adjustments and allowances, workers’ compensation losses, income and other taxes, and assumptions used 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. The Company derives its revenues from three segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. Net service revenues as presented on the Consolidated Statements of Operations represent services rendered to customers less sales adjustments and allowances. Reimbursements, including those related to travel and out-of-pocket expenses, are also included in net service revenues, and equivalent amounts of reimbursable expenses are included in direct costs of services. 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.

Temporary and consultant staffing revenues—Temporary and consultant staffing revenues are recognized when the services are rendered by the Company’s temporary employees. 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 are recognized when employment candidates accept offers of permanent employment. The Company has a substantial history of estimating the effect of permanent placement candidates who do not remain with its clients through the 90-day guarantee period. Allowances are established to estimate these losses. 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 are generally provided on a time-and-material basis or fixed-fee basis. Revenues earned under time-and-material arrangements and fixed-fee arrangements are recognized using a proportional performance method as hours are incurred relative to total estimated hours for the engagement. The Company periodically evaluates the need to provide for any losses on these projects, and losses are recognized when it is probable that a loss will be incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Costs of Services. Direct costs of temporary and consultant staffing consist of payroll, payroll taxes and benefit costs for the Company's temporary employees, as well as reimbursable expenses. Direct costs of permanent placement staffing services consist of reimbursable expenses. Risk consulting and internal audit costs of services include professional staff payroll, payroll taxes and benefit costs, as well as reimbursable expenses.

Advertising Costs. The Company expenses all advertising costs as incurred. Advertising costs for the years ended December 31, 2018, 2017 and 2016, are reflected in the following table (in thousands):

| | Years Ended December 31, | | |
|-----------------------------|--------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Advertising Costs | \$ 52,499 | \$ 49,433 | \$ 47,312 |

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.

Fair Value of Financial Instruments. The Company does not have any financial instruments which require re-measurement to fair value. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses represent fair value based upon their short-term nature.

Cash and Cash Equivalents. The Company considers all highly liquid investments with a maturity at the date of purchase of three months or less as cash equivalents.

Accounts Receivable Allowances. The Company maintains allowances for estimated losses resulting from (i) the inability of its customers to make required payments and (ii) sales adjustments. The Company establishes these allowances based on its review of customers' credit profiles, historical loss statistics and current trends. The adequacy of these allowances is reviewed each reporting period. Historically, the Company's actual losses have been consistent with these allowances.

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 assessment as of June 30 in each of the three years ended December 31, 2018, and determined that no adjustment to the carrying value of goodwill was required. There were no events or changes in circumstances during the six months ended December 31, 2018 that caused the Company to perform an interim impairment assessment.

Income Taxes. The Company's operations are subject to U.S. federal, state and local, and foreign income taxes. In establishing its deferred income tax assets and liabilities and its provision for income taxes, the Company makes judgments and interpretations based on the enacted tax laws that are applicable to its operations in various jurisdictions. Deferred tax assets and liabilities are measured and recorded using current enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled. The likelihood of a material change in the Company's expected realization of its deferred tax assets is dependent on future taxable income and the effectiveness of its tax planning strategies in the various relevant jurisdictions.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("TCJA") into law. Effective January 1, 2018, among other changes, TCJA reduced the federal corporate tax rate to 21 percent, provided for a deemed repatriation and taxation at reduced rates of certain foreign earnings, and established new mechanisms to tax certain foreign earnings going forward. Similar to other large multinational companies, TCJA has wide ranging implications for the Company.

In December 2017, the SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company completed its TCJA analysis and recorded its final adjustments, which were not material, in the fourth quarter of 2018.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

realized. When appropriate, a valuation allowance is recorded against deferred tax assets to offset future tax benefits that may not be realized. Valuation allowances of \$23.1 million and \$20.2 million were recorded as of December 31, 2018 and 2017, respectively. The valuation allowances recorded related primarily to net operating losses in certain foreign operations. If such losses are ultimately utilized to offset future operating income, the Company will recognize a tax benefit up to the full amount of the valuation reserve.

Workers' Compensation. Except for states which require participation in state-operated insurance funds, the Company retains the economic burden for the first \$0.5 million per occurrence in workers' compensation claims. Workers' compensation includes ongoing healthcare and indemnity coverage for claims and may be paid over numerous years following the date of injury. Claims in excess of \$0.5 million are insured. Workers' compensation expense includes the insurance premiums for claims in excess of \$0.5 million, claims administration fees charged by the Company's workers' compensation administrator, premiums paid to state-operated insurance funds, and an estimate for the Company's liability for Incurred But Not Reported ("IBNR") claims and for the ongoing development of existing claims.

The reserves for IBNR claims and for the ongoing development of existing claims in each reporting period includes estimates. The Company has established reserves for workers' compensation claims using loss development rates which are estimated using periodic third party actuarial valuations based upon historical loss statistics which include the Company's historical frequency and severity of workers' compensation claims, and an estimate of future cost trends. While management believes that its assumptions and estimates are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's future results.

Foreign Currency Translation. The reporting currency of the Company and its subsidiaries is the U.S. dollar. The functional currency of the Company's foreign subsidiaries is their local currency. The results of operations of the Company's foreign subsidiaries are translated at the monthly average exchange rates prevailing during the period. The financial position of the Company's foreign subsidiaries is translated at the current exchange rates at the end of the period, and the related translation adjustments are recorded as a component of accumulated other comprehensive income within Stockholders' Equity. Gains and losses resulting from foreign currency transactions are included as a component of selling, general and administrative expenses in the Consolidated Statements of Operations, and have not been material for all periods presented.

Stock-based Compensation. 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.

The Company recognizes compensation expense equal to the grant-date fair value for all stock-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to performance conditions, in which case the Company recognizes compensation expense over the requisite service period of each separate vesting tranche. The Company determines the grant-date fair value of its restricted stock and stock unit awards using the fair market value of its stock on the grant date, unless the awards are subject to market conditions, in which case the Company utilizes a binomial-lattice model (i.e., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to determine the stock-based compensation expense.

No stock appreciation rights have been granted under the Company's existing stock plans. The Company has not granted any options to purchase common stock since 2006.

Property and Equipment. Property and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the following useful lives:

| | |
|-------------------------|-----------------------------------|
| Computer hardware | 2 to 3 years |
| Computer software | 2 to 5 years |
| Furniture and equipment | 5 years |
| Leasehold improvements | Term of lease, 5 years maximum |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 years ended December 31, 2018, 2017 and 2016, are reflected in the following table (in thousands):

| | Years Ended December 31, | | |
|---|--------------------------|----------|-----------|
| | 2018 | 2017 | 2016 |
| Internal-use software development costs | \$ 3,287 | \$ 9,030 | \$ 33,753 |

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):

| | December 31, 2018 | | |
|---|-------------------|---|---------------------------------|
| | As Reported | Balances Without Adoption of Revenue Guidance | Effect of Change Higher (Lower) |
| <u>Assets</u> | | | |
| Accounts receivable, net | \$ 794,446 | \$ 783,776 | \$ 10,670 |
| <u>Liabilities</u> | | | |
| Accounts payable and accrued expenses | \$ 168,031 | \$ 157,361 | \$ 10,670 |

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. Lessees and lessors may elect to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements; or they may elect to apply the provisions of the guidance, using a prospective approach, beginning at the adoption date and recognize a cumulative effect adjustment to opening retained earnings in the period of adoption. The new standard was effective for the Company beginning January 1, 2019, and the Company implemented the new standard using a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prospective approach. Upon adoption, the Company elected the package of practical expedients available under the new standard, which allowed the Company to forgo a reassessment of (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) the initial direct costs for any existing leases. The Company adopted this guidance as of January 1, 2019, using the transition method that allowed it to initially apply the guidance as of January 1, 2019, and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This adjustment to the opening balance of retained earnings was not material. In addition to certain changes to its systems and processes, the estimated impact of the adoption of this guidance included the recognition of \$270 million to \$290 million of lease liabilities and right of use assets on the Company's Consolidated Statement of Financial Position, offset by approximately \$30 million of accrued rent, which reduced the right-of-use assets.

Current Expected Credit Losses Model. In June 2016, the FASB issued authoritative guidance amending how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model, which is a new impairment model based on expected losses. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements and related disclosures.

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

Cloud Computing. In August 2018, the FASB issued authoritative guidance which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Entities are required to present the expense related to capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting elements of the arrangement and classify the payments for the capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. Entities are also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment of the fees of the associated hosting arrangement would be presented. The new guidance is effective for the Company for annual and interim periods beginning after December 15, 2019, although early adoption is permitted. The Company has adopted the new guidance as of January 1, 2019, and the impact of adoption was not material to 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The substantial majority of employees placed on temporary assignment by the Company are the Company's legal employees while they are working on assignments. The Company pays all related costs of employment, including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company assumes the risk of acceptability of its employees to its customers.

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

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

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

| | Years Ended December 31, | | |
|---|--------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Accountemps | \$1,915,054 | \$1,765,666 | \$1,786,276 |
| OfficeTeam | 1,063,238 | 984,873 | 972,414 |
| Robert Half Technology | 682,889 | 629,278 | 659,844 |
| Robert Half Management Resources | 669,385 | 631,225 | 608,243 |
| Temporary and consulting staffing | 4,330,566 | 4,011,042 | 4,026,777 |
| Permanent placement staffing | 511,989 | 439,214 | 419,314 |
| Risk consulting and internal audit services | 957,716 | 816,533 | 804,308 |
| Net service revenues | <u>\$5,800,271</u> | <u>\$5,266,789</u> | <u>\$5,250,399</u> |

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 December 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 \$58.8 million. Of this amount, \$54.9 million is expected to be recognized within the next twelve months. There were no revenues recognized in the twelve months ended December 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 December 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 Consolidated Statements of Financial Position. The following table sets forth

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the activity in contract liabilities from January 1, 2018 through December 31, 2018 (in thousands):

| | <u>December 31,</u> <u>2018</u> |
|--|------------------------------------|
| Balance at beginning of period | \$ 9,003 |
| Payments in advance of satisfaction of performance obligations | 12,170 |
| Revenue recognized | (10,542) |
| Other, including translation adjustments | 2,366 |
| Balance at end of period | <u>\$ 12,997</u> |

Note D—Other Current Assets

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

| | <u>December 31,</u> | |
|---|---------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| Deposits in trusts for employee deferred compensation plans | \$311,708 | \$292,326 |
| Other | 90,877 | 112,385 |
| Other current assets | <u>\$402,585</u> | <u>\$404,711</u> |

Note E—Goodwill

The following table sets forth the activity in goodwill from December 31, 2016, through December 31, 2018 (in thousands):

| | <u>Goodwill</u> | | | |
|--|--|---|--|-------------------|
| | <u>Temporary and consultant staffing</u> | <u>Permanent placement staffing</u> | <u>Risk consulting and internal audit services</u> | <u>Total</u> |
| Balance as of December 31, 2016 | \$ 133,875 | \$ 26,015 | \$ 49,903 | \$ 209,793 |
| Foreign currency translation adjustments | 613 | 144 | 335 | 1,092 |
| Balance as of December 31, 2017 | <u>\$ 134,488</u> | <u>\$ 26,159</u> | <u>\$ 50,238</u> | <u>\$ 210,885</u> |
| Foreign currency translation adjustments | (421) | (101) | (405) | (927) |
| Balance as of December 31, 2018 | <u>\$ 134,067</u> | <u>\$ 26,058</u> | <u>\$ 49,833</u> | <u>\$ 209,958</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note F—Property and Equipment, Net

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

| | December 31, | |
|--|-------------------|-------------------|
| | 2018 | 2017 |
| Computer hardware | \$ 177,237 | \$ 171,515 |
| Computer software | 378,734 | 376,761 |
| Furniture and equipment | 107,421 | 102,424 |
| Leasehold improvements | 160,521 | 148,764 |
| Other | 10,319 | 9,907 |
| Property and equipment, cost | 834,232 | 809,371 |
| Accumulated depreciation | (709,056) | (664,484) |
| Property and equipment, net | <u>\$ 125,176</u> | <u>\$ 144,887</u> |

Note G—Accrued Payroll and Benefit Costs

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

| | December 31, | |
|--|-------------------|-------------------|
| | 2018 | 2017 |
| Payroll and benefits | \$ 263,072 | \$ 256,804 |
| Employee deferred compensation plans | 333,528 | 312,429 |
| Workers' compensation | 18,251 | 17,092 |
| Payroll taxes | 23,918 | 26,574 |
| Accrued payroll and benefit costs | <u>\$ 638,769</u> | <u>\$ 612,899</u> |

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

| | December 31, | |
|---|--------------|-----------|
| | 2018 | 2017 |
| Deferred compensation plan and other benefits related to the Company's Chief Executive Officer | \$ 89,212 | \$ 86,145 |

Note H—Notes Payable and Other Indebtedness

The Company issued promissory notes as well as other forms of indebtedness in connection with certain acquisitions and other payment obligations. These notes are due in varying installments and, in aggregate, amounted to \$0.7 million at December 31, 2018, and \$0.8 million at December 31, 2017. At December 31, 2018, \$0.7 million of the notes were collateralized by a standby letter of credit. The following table shows the schedule of maturities for notes payable and other indebtedness at December 31, 2018 (in thousands):

| | |
|----------------|---------------|
| 2019 | \$ 200 |
| 2020 | 218 |
| 2021 | 239 |
| 2022 | — |
| 2023 | — |
| | <u>\$ 657</u> |

At December 31, 2018, the notes carried fixed rates and the weighted average interest rate for the above was 9.0% for each of the years ended December 31, 2018, 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has an uncommitted letter of credit facility (the “facility”) of up to \$35.0 million, which is available to cover the issuance of debt support standby letters of credit. The Company had used \$14.4 million in debt support standby letters of credit as of December 31, 2018, and \$17.4 million as of December 31, 2017. Of the debt support standby letters of credit outstanding, \$13.7 million as of December 31, 2018, and \$16.6 million as of December 31, 2017, satisfies workers’ compensation insurer’s collateral requirements. There is a service fee of 1.125% on the used portion of the facility. The facility is subject to certain financial covenants and expires on August 31, 2019. The Company was in compliance with these covenants as of December 31, 2018. The Company intends to renew this facility prior to its August 31, 2019 expiration.

Note I—Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2018, 2017 and 2016, consisted of the following (in thousands):

| | Years Ended December 31, | | |
|-------------------------|--------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Current: | | | |
| Federal | \$ 99,830 | \$ 133,097 | \$ 156,937 |
| State | 38,356 | 24,944 | 34,927 |
| Foreign | 35,007 | 27,079 | 20,725 |
| Deferred: | | | |
| Federal and state | (15,849) | 41,717 | (3,785) |
| Foreign | (30) | 95 | 1,917 |
| | <u>\$ 157,314</u> | <u>\$ 226,932</u> | <u>\$ 210,721</u> |

Income before the provision for income taxes for the years ended December 31, 2018, 2017 and 2016, consisted of the following (in thousands):

| | Years Ended December 31, | | |
|----------------|--------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Domestic | \$ 485,489 | \$ 445,418 | \$ 494,890 |
| Foreign | 106,113 | 72,098 | 59,220 |
| | <u>\$ 591,602</u> | <u>\$ 517,516</u> | <u>\$ 554,110</u> |

The income taxes shown above varied from the statutory federal income tax rates for these periods as follows:

| | Years Ended December 31, | | |
|--|--------------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| Federal U.S. income tax rate | 21.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 4.7 | 3.7 | 4.2 |
| Permanent book/tax differences | 0.6 | 0.4 | 0.5 |
| Non-U.S. income taxed at different rates, net of foreign tax credits | 2.0 | — | (0.6) |
| Federal tax credits | (1.7) | (1.3) | (0.8) |
| Tax impact of uncertain tax positions | 0.8 | 0.2 | — |
| Valuation allowance release, net | — | — | (0.1) |
| Tax effects of TCJA | 0.4 | 6.5 | — |
| Other, net | (1.2) | (0.6) | (0.2) |
| Effective tax rate | <u>26.6%</u> | <u>43.9%</u> | <u>38.0%</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The deferred portion of the tax (benefit) provision consisted of the following (in thousands):

| | Years Ended December 31, | | |
|---|--------------------------|-----------|------------|
| | 2018 | 2017 | 2016 |
| Accrued expenses, deducted for tax when paid | \$ (21,884) | \$ 15,213 | \$ (6,889) |
| Capitalized costs for books, deducted for tax | (4,832) | (5,790) | 5,901 |
| Depreciation | 10,071 | (4,079) | (2,405) |
| Tax effects of TCJA | — | 34,633 | — |
| Other, net | 766 | 1,835 | 1,525 |
| | \$ (15,879) | \$ 41,812 | \$ (1,868) |

The components of the deferred income tax amounts at December 31, 2018 and 2017, were as follows (in thousands):

| | December 31, | |
|---|--------------|-----------|
| | 2018 | 2017 |
| Deferred Income Tax Assets | | |
| Deferred compensation and other benefit obligations | \$ 87,513 | \$ 68,101 |
| Credits and net operating loss carryforwards | 31,169 | 30,087 |
| Stock-based compensation | 9,535 | 8,614 |
| Provision for bad debts | 7,891 | 6,794 |
| Workers' compensation | 3,580 | 3,127 |
| Other | 14,959 | 13,343 |
| Total deferred income tax assets | 154,647 | 130,066 |
| Deferred Income Tax Liabilities | | |
| Amortization of intangible assets | (21,210) | (20,220) |
| Property and equipment basis differences | (9,761) | (4,421) |
| Other | (10,319) | (10,847) |
| Total deferred income tax liabilities | (41,290) | (35,488) |
| Valuation allowance | (23,072) | (20,178) |
| Total deferred income tax assets, net | \$ 90,285 | \$ 74,400 |

Credits and net operating loss carryforwards primarily include net operating losses in foreign countries of \$27.7 million that expire in 2019 and later; and California enterprise zone tax credits of \$2.9 million that expire in 2023. Of the \$2.9 million of California enterprise zone tax credits, the Company expects that it will utilize \$1.2 million of these credits prior to expiration. Valuation allowances of \$21.4 million have been maintained against net operating loss carryforwards and other deferred items in foreign countries. In addition, a valuation allowance of \$1.7 million has been maintained against California enterprise zone tax credits.

As of December 31, 2018, the Company's consolidated financial statements provide for any related U.S. tax liability on earnings of foreign subsidiaries that may be repatriated, aside from undistributed earnings of certain of the Company's foreign subsidiaries that are intended to be indefinitely reinvested in operations outside the United States.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reconciles the total amounts of gross unrecognized tax benefits from January 1, 2016 to December 31, 2018 (in thousands):

| | December 31, | | |
|---|-----------------|-----------------|---------------|
| | 2018 | 2017 | 2016 |
| Balance at beginning of period | \$ 2,886 | \$ 731 | \$ 814 |
| Gross increases—tax positions in prior years | 3,259 | 1,503 | 92 |
| Gross decreases—tax positions in prior years | (8) | (257) | — |
| Gross increases—tax positions in current year | 2,284 | 956 | 114 |
| Settlements | — | (40) | — |
| Lapse of statute of limitations | (3) | (7) | (289) |
| Balance at end of period | <u>\$ 8,418</u> | <u>\$ 2,886</u> | <u>\$ 731</u> |

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is \$8.3 million, \$2.8 million and \$0.5 million for 2018, 2017 and 2016, respectively.

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. The total amount of interest and penalties accrued as of December 31, 2018 is \$0.3 million, including a \$0.2 million increase recorded in income tax expense during the year. The total amount of interest and penalties accrued as of December 31, 2017 was \$0.1 million. The total amount of interest and penalties accrued as of December 31, 2016, was \$0.1 million, including a \$0.1 million reduction recorded in income tax expense during the year.

The Company believes it is reasonably possible that the settlement of certain tax uncertainties could occur within the next twelve months; accordingly, \$0.1 million of the unrecognized gross tax benefit has been classified as a current liability as of December 31, 2018. This amount primarily represents unrecognized tax benefits composed of items related to assessed state income tax audits and negotiations.

The Company's major income tax jurisdictions are the United States, Australia, Belgium, Canada, France, Germany and the United Kingdom. For U.S. federal income tax, the Company remains subject to examination for 2015 and subsequent years. For major U.S. states, with few exceptions, the Company remains subject to examination for 2014 and subsequent years. Generally, for the foreign countries, the Company remains subject to examination for 2011 and subsequent years.

Note J—Commitments and Contingencies

Rental expense, primarily for office premises, amounted to \$89.4 million, \$87.5 million and \$87.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The approximate minimum rental commitments for 2019 and thereafter under non-cancelable leases in effect at December 31, 2018 were as follows (in thousands):

| | |
|------------|------------------|
| 2019 | \$ 88,231 |
| 2020 | 81,252 |
| 2021 | 62,111 |
| 2022 | 47,268 |
| 2023 | 37,566 |
| Thereafter | <u>52,993</u> |
| | <u>\$369,421</u> |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statutory penalties on behalf of herself and other allegedly “aggrieved employees” as defined by California’s Labor Code Private Attorney General Act (“PAGA”). On January 4, 2016, the Court denied a motion by the Company to compel all of Gentry’s claims, except the PAGA claim, to individual arbitration. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding and, accordingly, no amounts have been provided in the Company’s Financial Statements. The Company believes it has meritorious defenses to the allegations and the Company intends to continue to vigorously defend against the litigation.

On April 6, 2018, Plaintiff Shari Dorff, on her own behalf and on behalf of a putative class of allegedly similarly situated individuals, filed a complaint against the Company in the Superior Court of California, County of Los Angeles. In addition to certain claims individual to Plaintiff Dorff, the complaint alleges that salaried recruiters based in California have been misclassified as exempt employees and seeks an unspecified amount for: unpaid wages resulting from such alleged misclassification; alleged failure to provide a reasonable opportunity to take meal periods and rest breaks; alleged failure to pay wages on a timely basis both during employment and upon separation; alleged failure to comply with California requirements regarding wage statements and record-keeping; and alleged improper denial of expense reimbursement. Plaintiff Dorff also seeks an unspecified amount of other damages, attorneys’ fees, and penalties, including but not limited to statutory penalties on behalf of herself and other allegedly “aggrieved employees” as defined by PAGA. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding and, accordingly, no amounts have been provided in the Company’s Financial Statements. The Company believes it has meritorious defenses to the allegations and the Company intends to continue to vigorously defend against the litigation.

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

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

Note K—Stockholders’ Equity

Stock Repurchase Program. As of December 31, 2018, the Company is authorized to repurchase, from time to time, up to 6.7 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 years ended December 31, 2018, 2017 and 2016, are reflected in the following table (in thousands):

| | Years Ended December 31, | | |
|--|--------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Common stock repurchased (in shares) | 5,614 | 4,046 | 4,046 |
| Common stock repurchased | \$ 351,194 | \$ 196,645 | \$ 163,614 |

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 employee stock plan repurchases made during the years ended December 31, 2018, 2017 and 2016, are reflected in the following table (in thousands):

| | Years Ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Repurchases related to employee stock plans (in shares) | 235 | 408 | 359 |
| Repurchases related to employee stock plans | \$ 13,674 | \$ 20,391 | \$ 15,170 |

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 each of the three years ended December 31, 2018, 2017 and 2016 (consisting of stock option exercises and the purchase of shares for the treasury) is presented in the Consolidated Statements of Stockholders’ Equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 years ended December 31, 2018, 2017 and 2016, are reflected in the following table:

| | Years Ended December 31, | | |
|---|--------------------------|--------|--------|
| | 2018 | 2017 | 2016 |
| Cash dividends declared per share | \$ 1.12 | \$.96 | \$.88 |

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 December 31, 2018.

Note L—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 either on a straight-line basis over four years or on a cliff basis over three years. Shares offered under the plan are authorized but unissued shares or treasury shares.

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 there were no grants outstanding that received dividends prior to vesting. 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.

The Company recognizes compensation expense equal to the grant-date fair value for all stock-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to performance conditions, in which case the Company recognizes compensation expense over the requisite service period of each separate vesting tranche. The Company determines the grant-date fair value of its restricted stock and stock unit awards using the fair market value on the grant date, unless the awards are subject to market conditions, in which case the Company utilizes a binomial-lattice model (i.e., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to determine the stock-based compensation expense.

During the year ended December 31, 2018, the Company granted performance shares to its executives in the form of restricted stock. The shares granted contain (1) a performance condition based on earnings per share, and (2) a performance condition based on Return on Invested Capital ("ROIC"). The ROIC performance condition measures the Company's performance against a peer group. Shares will be delivered at the end of the three year vesting and ROIC performance period based on the Company's actual performance compared to the peer group. Actual shares earned will range from seventy-five percent (75%) to one hundred twenty-five percent (125%) of the target award after any adjustment made for the EPS performance condition.

Stock-based compensation expense consisted of the following (in thousands):

| | Years Ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Restricted stock and stock units - expense | \$ 44,953 | \$ 42,191 | \$ 42,699 |

Unrecognized compensation cost is expected to be recognized over the next four years. Total unrecognized compensation cost, net of estimated forfeitures, consisted of the following (in thousands):

| | December 31, | | |
|--|--------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Restricted stock and stock units - unrecognized future costs | \$ 65,557 | \$ 62,730 | \$ 60,481 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects activity under all stock plans from December 31, 2015 through December 31, 2018, and the weighted average exercise prices (in thousands, except per share amounts):

| | Restricted Stock Plans without Market-Condition | | Restricted Stock Plans with Market-Condition | | Stock Option Plans | |
|--|--|---|---|---|-------------------------------|---|
| | Number of Shares/ Units | Weighted Average Grant Date Fair Value | Number of Shares/ Units | Weighted Average Grant Date Fair Value | Number of Shares/ Units | Weighted Average Exercise Price Per Share |
| Outstanding, December 31, 2015 | 1,052 | \$46.88 | 992 | \$52.89 | 12 | \$32.36 |
| Granted | 772 | \$38.47 | 358 | \$45.93 | — | — |
| Exercised | — | — | — | — | (7) | \$32.36 |
| Restrictions lapsed | (545) | \$42.42 | (364) | \$43.04 | — | — |
| Forfeited | (36) | \$41.28 | (36) | \$43.04 | (5) | \$32.36 |
| Outstanding, December 31, 2016 | 1,243 | \$43.78 | 950 | \$54.42 | — | — |
| Granted | 904 | \$47.86 | 50 | \$50.09 | — | — |
| Restrictions lapsed | (616) | \$44.09 | (384) | \$50.09 | — | — |
| Forfeited | (41) | \$43.68 | — | — | — | — |
| Outstanding, December 31, 2017 | 1,490 | \$46.13 | 616 | \$56.76 | — | — |
| Granted | 811 | \$57.04 | — | — | — | — |
| Restrictions lapsed | (568) | \$47.62 | (129) | \$71.86 | — | — |
| Forfeited | (40) | \$49.10 | (129) | \$71.86 | — | — |
| Outstanding, December 31, 2018 | <u>1,693</u> | \$50.78 | <u>358</u> | \$45.93 | — | — |

The total pre-tax intrinsic value of stock options exercised and the total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016, are reflected in the following table (in thousands):

| | Years Ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Total pre-tax intrinsic value of stock options exercised | \$ — | \$ — | \$ 52 |
| Total fair value of shares vested | \$ 40,583 | \$ 50,385 | \$ 39,302 |

At December 31, 2018, the total number of available shares to grant under the plans (consisting of either restricted stock, stock units, stock appreciation rights or options to purchase common stock) was approximately 3.2 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note M—Net Income Per Share

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

| | Years Ended December 31, | | |
|--|--------------------------|----------------|----------------|
| | 2018 | 2017 | 2016 |
| Net income | \$ 434,288 | \$ 290,584 | \$ 343,389 |
| Basic: | | | |
| Weighted average shares | <u>120,513</u> | <u>124,152</u> | <u>127,991</u> |
| Diluted: | | | |
| Weighted average shares | 120,513 | 124,152 | 127,991 |
| Dilutive effect of potential common shares | <u>1,089</u> | <u>740</u> | <u>775</u> |
| Diluted weighted average shares | <u>121,602</u> | <u>124,892</u> | <u>128,766</u> |
| Net income per share: | | | |
| Basic | \$ 3.60 | \$ 2.34 | \$ 2.68 |
| Diluted | \$ 3.57 | \$ 2.33 | \$ 2.67 |

Potential common shares include the dilutive effect of stock options, unvested performance-based restricted stock, restricted stock which contains forfeitable rights to dividends, and stock units.

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 N—Business Segments

The Company has three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. The temporary and consultant staffing segment provides specialized staffing in the accounting and finance, administrative and office, information technology, legal, advertising, marketing and web design fields. The permanent placement staffing segment provides full-time personnel in the accounting, finance, administrative and office, and information technology fields. The risk consulting and internal audit services segment provides business and technology risk consulting and internal audit services.

The accounting policies of the segments are set forth in Note A—Summary of Significant Accounting Policies. The Company evaluates performance based on income from operations before net interest income, intangible amortization expense, and income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides a reconciliation of revenue and operating income by reportable segment to consolidated results (in thousands):

| | Years Ended December 31, | | |
|---|--------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Net service revenues | | | |
| Temporary and consultant staffing | \$4,330,566 | \$4,011,042 | \$4,026,777 |
| Permanent placement staffing | 511,989 | 439,214 | 419,314 |
| Risk consulting and internal audit services | 957,716 | 816,533 | 804,308 |
| | <u>\$5,800,271</u> | <u>\$5,266,789</u> | <u>\$5,250,399</u> |
| Operating income | | | |
| Temporary and consultant staffing | \$ 404,800 | \$ 355,700 | \$ 393,704 |
| Permanent placement staffing | 90,801 | 77,673 | 80,001 |
| Risk consulting and internal audit services | 93,324 | 83,907 | 80,754 |
| | <u>588,925</u> | <u>517,280</u> | <u>554,459</u> |
| Amortization of intangible assets | 1,705 | 1,563 | 1,237 |
| Interest income, net | (4,382) | (1,799) | (888) |
| Income before income taxes | <u>\$ 591,602</u> | <u>\$ 517,516</u> | <u>\$ 554,110</u> |

Assets by reportable segment are not presented as the Company does not allocate assets to its reportable segments, nor is such information used by management for purposes of assessing performance or allocating resources.

The Company operates internationally, with operations in North America, South America, Europe, Asia and Australia. The following tables represent revenues and long-lived assets by geographic location (in thousands):

| | Years Ended December 31, | | |
|--------------------------|--------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Net service revenues (a) | | | |
| Domestic | \$4,433,767 | \$4,121,701 | \$4,220,477 |
| Foreign (b) | 1,366,504 | 1,145,088 | 1,029,922 |
| | <u>\$5,800,271</u> | <u>\$5,266,789</u> | <u>\$5,250,399</u> |
| | | | |
| | December 31, | | |
| | 2018 | 2017 | 2016 |
| Assets, long-lived | | | |
| Domestic | \$ 96,169 | \$ 113,069 | \$ 136,434 |
| Foreign | 29,007 | 31,818 | 25,075 |
| | <u>\$ 125,176</u> | <u>\$ 144,887</u> | <u>\$ 161,509</u> |

- (a) There were no customers that accounted for more than 10% of the Company's total net revenue in any year presented.
(b) No individual country represented more than 10% of revenues in any year presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note O—Quarterly Financial Data (Unaudited)

The following tabulation shows certain quarterly financial data for 2018 and 2017 (in thousands, except per share amounts):

| | Quarter | | | |
|--|-------------|-------------|-------------|-------------|
| | 1 | 2 | 3 | 4 |
| 2018 | | | | |
| Net service revenues | \$1,395,333 | \$1,457,054 | \$1,466,226 | \$1,481,658 |
| Gross margin | \$ 572,366 | \$ 607,118 | \$ 610,468 | \$ 620,062 |
| Income before income taxes | \$ 134,639 | \$ 150,075 | \$ 151,905 | \$ 154,983 |
| Net income | \$ 96,167 | \$ 109,315 | \$ 115,242 | \$ 113,564 |
| Basic net income per share | \$.79 | \$.90 | \$.96 | \$.96 |
| Diluted net income per share | \$.78 | \$.89 | \$.95 | \$.95 |

| | Quarter | | | |
|--|-------------|-------------|-------------|-------------|
| | 1 | 2 | 3 | 4 |
| 2017 | | | | |
| Net service revenues | \$1,287,370 | \$1,308,428 | \$1,324,709 | \$1,346,282 |
| Gross margin | \$ 525,828 | \$ 538,438 | \$ 546,400 | \$ 553,146 |
| Income before income taxes | \$ 125,501 | \$ 130,707 | \$ 132,270 | \$ 129,038 |
| Net income | \$ 78,521 | \$ 80,316 | \$ 84,700 | \$ 47,047 |
| Basic net income per share | \$.63 | \$.64 | \$.69 | \$.38 |
| Diluted net income per share | \$.62 | \$.64 | \$.68 | \$.38 |

Note P—Subsequent Events

On February 12, 2019, the Company announced the following:

| | |
|--|-------------------|
| Quarterly dividend per share | \$.31 |
| Declaration date | February 12, 2019 |
| Record date | February 25, 2019 |
| Payment date | March 15, 2019 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Robert Half International Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Robert Half International Inc. and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Francisco, California
February 15, 2019

We have served as the Company's auditor since 2002.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure 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.

Changes in Internal Control over Financial Reporting. 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 fourth quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, using criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of December 31, 2018.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Item 9B. Other Information

None.

PART III

Except as provided below in this Part III, the information required by Items 10 through 14 of Part III is incorporated by reference from Item 1 of this Report and from the registrant's Proxy Statement, under the captions "*Nomination and Election of Directors*," "*Beneficial Stock Ownership*," "*Compensation Discussion and Analysis*," "*Compensation Tables*," "*Corporate Governance*," "*The Board and Committees*" and "*Independent Registered Public Accounting Firm*" which Proxy Statement will be mailed to stockholders in connection with the registrant's annual meeting of stockholders which is scheduled to be held in May 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries are included in Item 8 of this report:

| | <u>Page(s)</u> |
|---|----------------|
| Consolidated statements of financial position at December 31, 2018 and 2017 | 23 |
| Consolidated statements of operations for the years ended December 31, 2018, 2017, and 2016..... | 24 |
| Consolidated statements of comprehensive income for the years ended December 31, 2018, 2017, and 2016..... | 25 |
| Consolidated statements of stockholders' equity for the years ended December 31, 2018, 2017, and 2016.. | 26 |
| Consolidated statements of cash flows for the years ended December 31, 2018, 2017, and 2016 | 27 |
| Notes to consolidated financial statements | 28-44 |
| Report of independent registered public accounting firm..... | 45-46 |
| Selected quarterly financial data for the years ended December 31, 2018 and 2017 are set forth in Note O —Quarterly Financial Data (Unaudited) included in Item 8 of this report..... | 44 |

2. Financial Statement Schedules

| | |
|--|----|
| Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017, and 2016. | 53 |
|--|----|

Schedules I, III, IV and V have been omitted as they are not applicable.

3. Exhibits

| Exhibit No. | Exhibit |
|-------------|--|
| 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. |
| *10.1 | Form of Power of Attorney and Indemnification Agreement, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002. |
| *10.2 | Employment Agreement between the Registrant and Harold M. Messmer, Jr., incorporated by reference to (i) Exhibit 10.(c) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1985(P), (ii) Exhibit 10.2(b) to Registrant's Registration Statement on Form S-1 (No. 33-15171)(P), (iii) Exhibit 10.2(c) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987(P), (iv) Exhibit 10.2(d) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988(P), (v) Exhibit 28.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1990(P), (vi) Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1991(P), (vii) Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1993(P), (viii) Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, (ix) Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1995, (x) Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, (xi) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, (xii) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, (xiii) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, (xiv) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, (xv) Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004, (xvi) Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2008, and (xvii) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. |
| *10.3 | Amended and Restated Retirement Agreement between Registrant and Harold M. Messmer Jr., incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated December 7, 2006. |
| *10.4 | Amended and Restated Deferred Compensation Plan, incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2008. |
| *10.5 | Amended and Restated Severance Agreement dated as of February 9, 2011, between Registrant and Paul F. Gentzkow, incorporated by reference to Exhibit 10.8 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. |
| *10.6 | Agreement dated as of July 31, 1995, between Registrant and Paul F. Gentzkow, incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000. |
| *10.7 | Form of Amended and Restated Severance Agreement, incorporated by reference to Exhibit 10.10 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. |
| *10.8 | Form of Indemnification Agreement for Directors of the Registrant, incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989(P). |
| *10.9 | Form of Indemnification Agreement for Executive Officers of Registrant, incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000. |
| *10.10 | Senior Executive Retirement Plan, incorporated by reference to Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. |

| Exhibit No. | Exhibit |
|-------------|--|
| *10.11 | Collateral Assignment of Split Dollar Insurance Agreement, incorporated by reference to (i) Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000, and (ii) Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003. |
| *10.12 | Form of Part-Time Employment Agreement, as amended and restated, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2014. |
| *10.13 | Annual Performance Bonus Plan, as amended and restated, incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated May 23, 2013. |
| *10.14 | Summary of Outside Director Cash Remuneration, incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010. |
| *10.15 | Stock Incentive Plan, as amended and restated, incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2014. |
| *10.16 | Stock Incentive Plan—Form of Restricted Share Agreement for Executive Officers effective April 15, 2013, incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013. |
| *10.17 | Stock Incentive Plan—Form of Restricted Share Agreement for Executive Officers effective through April 14, 2013, incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K dated May 3, 2005. |
| *10.18 | Amendment to Restricted Share Agreement dated as of May 9, 2012, between Registrant and Harold M. Messmer, Jr., incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012. |
| *10.19 | Form of Amendment to Restricted Share Agreement dated as of May 9, 2012, incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012. |
| *10.20 | Form of Amendment to Restricted Share Agreement dated as of November 8, 2012, incorporated by reference to Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |
| *10.21 | Stock Incentive Plan—Form of Stock Option Agreement for Executive Officers, incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K dated May 3, 2005. |
| *10.22 | Stock Incentive Plan—Form of Restricted Share Agreement for Outside Directors, incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006. |
| *10.23 | Stock Incentive Plan—Form of Stock Option Agreement for Outside Directors, incorporated by reference to Exhibit 99.6 to Registrant's Current Report on Form 8-K dated May 3, 2005. |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Independent Registered Public Accounting Firm's Consent. |
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Rule 1350 Certification of Chief Executive Officer. |
| 32.2 | Rule 1350 Certification of Chief Financial Officer. |
| 101.1 | Part II, Item 8 of this Form 10-K formatted in XBRL. |

* Management contract or compensatory plan.

(P) This Exhibit was originally filed in paper format. Accordingly, a hyperlink has not been provided.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

Date: February 15, 2019

By: /s/ M. KEITH WADDELL

M. Keith Waddell
Vice Chairman, President and
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 15, 2019

By: /s/ HAROLD M. MESSMER, JR.

Harold M. Messmer, Jr.
Chairman of the Board,
Chief Executive Officer,
and a Director
(Principal Executive Officer)

Date: February 15, 2019

By: /s/ Dirk A. Kempthorne

Dirk A. Kempthorne, Director

Date: February 15, 2019

By: /s/ MARC H. MORIAL

Marc H. Morial, Director

Date: February 15, 2019

By: /s/ BARBARA J. NOVOGRADAC

Barbara J. Novogradac, Director

Date: February 15, 2019

By: /s/ ROBERT J. PACE

Robert J. Pace, Director

Date: February 15, 2019

By: /s/ FREDERICK A. RICHMAN

Frederick A. Richman, Director

Date: February 15, 2019

By: /s/ M. KEITH WADDELL

M. Keith Waddell
Vice Chairman, President,
Chief Financial Officer and a Director
(Principal Financial Officer)

Date: February 15, 2019

By: /s/ MICHAEL C. BUCKLEY

Michael C. Buckley
Executive Vice President and Treasurer
(Principal Accounting Officer)

Schedule II—Valuation and Qualifying Accounts
(in thousands)

| | <u>Balance at Beginning of Period</u> | | <u>Charged to Expenses</u> | <u>Deductions</u> | <u>Translation Adjustments</u> | <u>Balance at End of Period</u> |
|--|---|--|--------------------------------|-------------------|------------------------------------|-------------------------------------|
| Year Ended December 31, 2016 | | | | | | |
| Allowance for doubtful accounts receivable | \$ 35,087 | | 9,192 | (9,907) | (1,239) | \$ 33,133 |
| Deferred tax valuation allowance | \$ 26,329 | | 2,160 | (9,517) | (65) | \$ 18,907 |
| Year Ended December 31, 2017 | | | | | | |
| Allowance for doubtful accounts receivable | \$ 33,133 | | 8,022 | (8,751) | 777 | \$ 33,181 |
| Deferred tax valuation allowance | \$ 18,907 | | 1,411 | (1,275) | 1,135 | \$ 20,178 |
| Year Ended December 31, 2018 | | | | | | |
| Allowance for doubtful accounts receivable | \$ 23,682 (a) | | 11,914 | (8,690) | 772 | \$ 27,678 |
| Deferred tax valuation allowance | \$ 20,178 | | 5,683 | (2,599) | (190) | \$ 23,072 |

- (a) In accordance with its adoption of ASC 606 *Revenue from Contracts with Customers*, on January 1, 2018, the Company reclassified certain allowances that are now reflected as liabilities in the amount of \$9.5 million.

SUBSIDIARIES OF ROBERT HALF INTERNATIONAL INC.

| Name of Subsidiary | Jurisdiction of Incorporation |
|--|-------------------------------|
| RH Holding Company, Inc. | California |
| Robert Half of California, Inc. | California |
| Robert Half Staffing, LLC | California |
| Robert Half Temporaries, Inc. | California |
| Jersey Temporaries, Inc. | Delaware |
| Protiviti Inc. | Delaware |
| Protiviti Holdings Inc. | Delaware |
| RH-TM Resources, Inc. | Delaware |
| Protiviti Government Services, Inc. | Maryland |
| Robert Half Corporation | Nevada |
| Robert Half Nevada Staff, Inc. | Nevada |
| Robert Half of Pennsylvania, Inc. | Pennsylvania |
| Protiviti Pty. Limited | Australia |
| Robert Half Australia Pty. Limited | Australia |
| Robert Half Austria GmbH | Austria |
| Robert Half BVBA | Belgium |
| Robert Half Trabalho Temporário Ltda. | Brazil |
| Protiviti EOOD | Bulgaria |
| Robert Half Canada Inc. | Canada |
| Robert Half Chile Sociedad por Acciones | Chile |
| Robert Half Internacional Empresa De Servicios Transitorios Limitada | Chile |
| Protiviti Shanghai Co. Ltd. | China |
| Robert Half Human Resources Shanghai Company Limited | China |
| Robert Half Hong Kong Limited | China, Hong Kong SAR |
| Protiviti Hong Kong Co. Limited | China, Hong Kong SAR |

| Name of Subsidiary | Jurisdiction of Incorporation |
|--|--------------------------------------|
| Protiviti SAS | France |
| Robert Half International France SAS | France |
| Robert Half SAS | France |
| Protiviti GmbH | Germany |
| Robert Half Deutschland Beteiligungsgesellschaft mbH | Germany |
| Robert Half Deutschland GmbH & Co. KG | Germany |
| Protiviti Consulting Private Limited | India |
| Protiviti Government Services S.r.l. | Italy |
| Protiviti S.r.l. | Italy |
| Robert Half S.r.l. | Italy |
| Protiviti LLC | Japan |
| Robert Half Japan Ltd. | Japan |
| Robert Half Sarl | Luxembourg |
| Robert Half Holding Sarl | Luxembourg |
| Protiviti B.V. | Netherlands |
| Robert Half International B.V. | Netherlands |
| Robert Half Nederland B.V. | Netherlands |
| Robert Half New Zealand Limited | New Zealand |
| Protiviti Pte. Ltd. | Singapore |
| Robert Half International Pte. Ltd. | Singapore |
| Robert Half GmbH | Switzerland |
| Robert Half International (Dubai) Ltd. | United Arab Emirates |
| Protiviti Limited | United Kingdom |
| Robert Half Holdings Limited | United Kingdom |
| Robert Half Limited | United Kingdom |

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-14706, 33-32622, 33-32623, 33-39187, 33-39204, 33-40795, 33-52617, 33-56639, 33-56641, 33-57763, 33-62138, 33-62140, 33-65401, 33-65403, 333-05743, 333-05745, 333-18283, 333-18339, 333-38786, 333-38820, 333-42471, 333-42573, 333-42343, 333-42269, 333-50068, 333-50094, 333-66038, 333-66042, 333-68193, 333-68135, 333-68273, 333-75694, 333-79793, 333-79829, 333-88001, 333-91173, 333-91151, 333-91167, 333-98737, 333-125044, 333-151015, and 333-196291) of Robert Half International Inc., of our report dated February 15, 2019, relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Francisco, California

February 15, 2019

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Certification Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934

I, Harold M. Messmer, Jr., certify that:

1. I have reviewed this report on Form 10-K of Robert Half International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2019

/s/ HAROLD M. MESSMER, JR.

Harold M. Messmer, Jr.
Chairman and Chief Executive Officer

Certification Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934

I, M. Keith Waddell, certify that:

1. I have reviewed this report on Form 10-K of Robert Half International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2019

/s/ M. KEITH WADDELL

M. Keith Waddell
Vice Chairman, President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 of Robert Half International Inc. (the “Form 10-K”), I, Harold M. Messmer, Jr., Chief Executive Officer of Robert Half International Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Robert Half International Inc.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Robert Half International Inc. and will be retained by Robert Half International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

February 15, 2019

/s/ Harold M. Messmer, Jr.

Harold M. Messmer, Jr.
Chief Executive Officer
Robert Half International Inc.

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 of Robert Half International Inc. (the “Form 10-K”), I, M. Keith Waddell, Chief Financial Officer of Robert Half International Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Robert Half International Inc.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Robert Half International Inc. and will be retained by Robert Half International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

February 15, 2019

/s/ M. Keith Waddell

M. Keith Waddell
Chief Financial Officer
Robert Half International Inc.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Harold M. Messmer, Jr.

Chairman of the Board and Chief Executive Officer
of Robert Half International

Julia L. Coronado, Ph.D.

President and Founder, MacroPolicy Perspectives LLC, an economic
research consulting firm

Dirk A. Kempthorne

President of The Kempthorne Group, a private consulting firm

Marc H. Morial

President and Chief Executive Officer of the National Urban League

Barbara J. Novogradac

President of Novogradac Investment Company, a private real estate
investment company

Robert J. Pace

Founder and Chief Executive Officer of HundredX, Inc., a privately
held technology company, and retired partner and Managing Director
of Goldman Sachs & Co., a global investment banking and securities firm

Frederick A. Richman

Consultant to Deloitte Tax LLP

M. Keith Waddell

Vice Chairman of the Board, President and Chief Financial Officer
of Robert Half International

Corporate Headquarters

2884 Sand Hill Road
Menlo Park, California 94025
1.650.234.6000
www.roberthalf.com

Registrar and Stock Transfer Agent

Computershare Investor Services
P.O. Box 505000
Louisville, Kentucky 40233-5000

Private Couriers/Registered Mail:

Computershare Investor Services
462 South 4th Street, Suite 1600
Louisville, Kentucky 40202
1.800.676.0894
1.800.952.9245 (TDD for Hearing Impaired)
1.781.575.2879 (Foreign Shareholders)
www.computershare.com/investor

MANAGEMENT

Executive Officers

Harold M. Messmer, Jr.

Chairman of the Board and Chief Executive Officer

M. Keith Waddell

Vice Chairman of the Board, President and Chief Financial Officer

Paul F. Gentzkow

President and Chief Operating Officer — Staffing Services

Robert W. Glass

Executive Vice President, Corporate Development

Michael C. Buckley

Executive Vice President, Chief Administrative Officer, Treasurer
and Assistant Secretary

Officers

Evelyn Crane-Oliver

Senior Vice President, Secretary and General Counsel

Kenneth D. Gitlin

Senior Vice President, Operational Support

Stephen M. Hilton

Senior Vice President, Corporate Controller and Assistant Treasurer

Christopher M. Hoffmann

Senior Vice President, Commercial Transactions and Law

Tami A. Munns

Senior Vice President, Corporate Services — Staffing

M. Sean Perry

Senior Vice President, Chief Information Officer

Lynne C. Smith

Senior Vice President, Human Resources and Compensation

Reesa M. Staten

Senior Vice President, Corporate Communications

Michelle M. Whitman

Senior Vice President, Marketing

ACCONTEMPPS®

ROBERT HALF® FINANCE & ACCOUNTING

ROBERT HALF® MANAGEMENT RESOURCES

ROBERT HALF® TECHNOLOGY

OFFICETEAM®

ROBERT HALF® LEGAL

THE CREATIVE GROUP®

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[roberthalf.com](https://www.roberthalf.com)

