SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

OR

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

FOR THE TRANSITION PERIOD FROM _________ to _________.

Commission File Number 1-10427

ROBERT HALF INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-1648752**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2884 Sand Hill Road Suite 200 Menlo Park, California	**94025**
(Address of principal executive offices)	**(zip-code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one): Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of April 30, 2006:

171,791,271 shares of $.001 par value Common Stock

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
(in thousands, except share amounts)

	March 31, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	$ 472,652	$ 458,358
Accounts receivable, less allowances of $21,462 and $20,766	480,333	451,260
Deferred income taxes and other current assets	103,127	107,290
Total current assets	1,056,112	1,016,908
Goodwill and other intangible assets, net	172,017	165,857
Property and equipment, net	119,088	110,515
Deferred income taxes	28,660	25,406
Total assets	$1,375,877	$1,318,686
LIABILITIES		
Accounts payable and accrued expenses	$ 88,847	$ 89,133
Accrued payroll costs and retirement obligations	269,858	239,509
Income taxes payable	3,975	7,703
Current portion of notes payable and other indebtedness	361	356
Total current liabilities	363,041	336,701
Notes payable and other indebtedness, less current portion	4,168	2,698
Other liabilities	8,780	8,414
Total liabilities	375,989	347,813
Commitments and Contingencies (Note G)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.001 par value authorized 5,000,000 shares; issued and outstanding zero shares	—	—
Common stock, $.001 par value authorized 260,000,000 shares; issued and outstanding 171,077,622 and 170,681,605 shares	171	171
Capital surplus	856,040	875,843
Deferred compensation	—	(86,178)
Accumulated other comprehensive income	26,474	24,987
Retained earnings	117,203	156,050
Total stockholders' equity	999,888	970,873
Total liabilities and stockholders' equity	$1,375,877	$1,318,686

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2006	**2005**
Net service revenues	$943,924	$769,948
Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees	550,720	456,114
Gross margin	393,204	313,834
Selling, general and administrative expenses	287,482	230,315
Amortization of intangible assets	146	74
Interest income, net	(3,497)	(1,832)
Income before income taxes	109,073	85,277
Provision for income taxes	43,570	33,684
Net income	$ 65,503	$ 51,593
Basic net income per share	$ .39	$ .30
Diluted net income per share	$ .38	$ .29
Shares:		
Basic	167,390	169,898
Diluted	173,974	176,207
Cash dividends declared per share	$ .08	$ .07

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
COMMON STOCK—SHARES:		
Balance at beginning of period	170,682	172,981
Net issuances of restricted stock	699	(21)
Repurchases of common stock	(2,495)	(1,905)
Exercises of stock options	2,192	714
Balance at end of period	171,078	171,769
COMMON STOCK—PAR VALUE:		
Balance at beginning of period	$ 171	$ 173
Net issuances of restricted stock	1	—
Repurchases of common stock	(3)	(2)
Exercises of stock options	2	1
Balance at end of period	$ 171	$ 172
CAPITAL SURPLUS:		
Balance at beginning of period	$875,843	$702,331
Net issuances, and other changes to, restricted stock—excess over par value	—	(2,441)
Net issuances of restricted stock at par value	(1)	—
Stock-based compensation expense—restricted stock and stock units	9,659	—
Stock-based compensation expense—stock options	5,095	—
Exercises of stock options— excess over par value	28,714	10,487
Tax impact of equity incentive plans	22,908	3,943
Reclassification of deferred compensation	(86,178)	—
Balance at end of period	$856,040	$714,320
DEFERRED COMPENSATION:		
Balance at beginning of period	$ (86,178)	$ (63,944)
Net issuances of, and other changes to, restricted stock	—	2,441
Amortization of deferred compensation	—	5,863
Reclassification of deferred compensation	86,178	—
Balance at end of period	$ —	$ (55,640)
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Balance at beginning of period	$ 24,987	$ 32,570
Translation adjustments, net of tax	1,487	(2,874)
Balance at end of period	$ 26,474	$ 29,696
RETAINED EARNINGS:		
Balance at beginning of period	$156,050	$240,740
Repurchases of common stock—excess over par value	(90,610)	(53,287)
Cash dividends ($.08 per share and $.07 per share)	(13,740)	(12,075)
Net income	65,503	51,593
Balance at end of period	$117,203	$226,971
COMPREHENSIVE INCOME:		
Net income	$ 65,503	$ 51,593
Translation adjustments, net of tax	1,487	(2,874)
Total comprehensive income	$ 66,990	$ 48,719

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 65,503	$ 51,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	146	74
Depreciation expense	14,961	11,706
Stock-based compensation expense—restricted stock and stock units	9,659	5,863
Stock-based compensation expense—stock options	5,095	—
Tax impact of equity incentive plans	—	3,943
Excess tax benefits from stock-based compensation	(18,674)	—
Provision (benefit) for deferred income taxes	7,861	(894)
Provision for doubtful accounts	1,916	1,843
Changes in assets and liabilities, net of effects of acquisitions:		
Increase in accounts receivable	(28,206)	(28,671)
Increase in accounts payable, accrued expenses, accrued payroll costs and retirement obligations	27,948	21,435
Increase in income taxes payable	19,005	12,566
Change in other assets, net of change in other liabilities	(3,963)	(6,766)
Net cash flows provided by operating activities	101,251	72,692
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of goodwill and other intangible assets and other assets	(5,856)	—
Capital expenditures	(24,312)	(12,651)
Increase in trusts for employee benefits and retirement plans	(959)	(108)
Purchases of marketable securities	—	(430)
Proceeds from sales and maturities of marketable securities	—	69,376
Net cash flows (used in) provided by investing activities	(31,127)	56,187
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases of common stock	(90,613)	(40,862)
Cash dividends paid	(13,740)	(12,075)
Decrease in notes payable and other indebtedness	(11)	(19)
Excess tax benefits from stock-based compensation	18,674	—
Proceeds from exercises of stock options	28,716	10,488
Net cash flows used in financing activities	(56,974)	(42,468)
Effect of exchange rate changes on cash and cash equivalents	1,144	(1,689)
Net increase in cash and cash equivalents	14,294	84,722
Cash and cash equivalents at beginning of period	458,358	345,283
Cash and cash equivalents at end of period	$472,652	$430,005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 118	$ 130
Income taxes, net of refunds	$ 15,799	$ 22,134
Purchase of goodwill and other intangible assets and other assets:		
Assets acquired		
Goodwill and other intangible assets	$ 7,248	$ —
Other assets	2,398	—
Liabilities incurred		
Notes payable and other contracts	(1,524)	—
Other	(2,266)	—
Cash paid, net of cash acquired	$ 5,856	$ —
Non-cash items:		
Stock repurchases awaiting settlement	$ —	$ 12,427

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

ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2006

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 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 advertising, marketing, and web design fields. *Protiviti* provides business and technology risk consulting and internal audit services. *Protiviti*, which primarily employs risk consulting and internal audit professionals formerly associated with major accounting firms, is a wholly-owned subsidiary of the Company. Revenues are predominantly derived from specialized staffing services. The Company operates in the United States, Canada, Mexico, Europe, Asia, Australia and New Zealand. The Company is a Delaware corporation.

Basis of Presentation. The unaudited Condensed Consolidated Financial Statements ("Financial Statements") of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC"). The comparative year-end condensed consolidated statement of financial position data presented was derived from audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial position and results of operations for the periods presented have been included. These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2005, included in the annual report on Form 10-K. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for a full year.

Principles of Consolidation. The Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All intercompany balances have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As of March 31, 2006, such estimates included allowances for uncollectible accounts receivable, workers' compensation losses, income and other taxes, and certain employee retirement plans.

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 unaudited Condensed Consolidated Statements of Operations represent services rendered to customers less sales adjustments and allowances. The Company records 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.

Note A—Summary of Significant Accounting Policies (Continued)

Temporary and consultant staffing revenues—Temporary and consultant staffing revenues are recognized when the services are rendered by the Company's temporary employees. Temporary employees placed 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 are recognized as services are provided. Revenues on 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. Reimbursements, including those relating to travel and out-of-pocket expenses, are included in risk consulting and internal audit service revenues, and equivalent amounts of reimbursable expenses are included in direct costs of services.

Costs of Services. Direct costs of staffing services consist of payroll, payroll taxes and insurance costs for the Company's temporary employees. There are no direct costs associated with permanent placement staffing services. Risk consulting and internal audit costs of services include professional staff payroll, payroll taxes and insurance costs, as well as reimbursable expenses.

Advertising Costs. The Company expenses all advertising costs as incurred.

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.

Intangible Assets. 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's annual goodwill impairment analysis, which will be performed during the second quarter, is not expected to have a material effect on the Financial Statements. No events have occurred since the most recent goodwill impairment analysis which would require interim testing.

Income Tax Assets and Liabilities. In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. The Company records deferred tax assets and liabilities and evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. The likelihood of a material change in the Company's expected realization of these assets is dependent on future taxable income, its ability to use foreign tax credit carryforwards and carrybacks, final U.S. and foreign tax settlements, and the effectiveness of its tax planning strategies in the various relevant jurisdictions.

Note A—Summary of Significant Accounting Policies (Continued)

Workers' Compensation. The Company self-insures or retains a portion of the exposure for losses related to workers' compensation. The Company has established reserves for workers' compensation claims based on historical loss statistics and periodic third-party actuarial valuations.

Foreign Currency Translation. 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 unaudited Condensed 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. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* ("SFAS 123(R)"). Prior to January 1, 2006, the Company accounted for the plans under the measurement and recognition provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related Interpretations as permitted by SFAS No. 123 ("SFAS 123"), *Accounting for Stock Based Compensation.* Under APB 25, the Company recorded stock-based compensation expense for restricted stock and restricted stock units in its Financial Statements. Under the provisions of APB 25, the Company was not required to recognize compensation expense for the cost of stock options due to using the intrinsic value method. Stock-based compensation expense for stock options was included as a pro forma disclosure in the financial statement footnotes.

The following table reflects pro forma net income and basic and diluted net income per share as presented in the Notes to Financial Statements for the period ending March 31, 2005 (in thousands, except per share amounts):

	Three Months Ended March 31, 2005
Net Income	
As reported	$51,593
Stock-based employee compensation expense, net of related tax effects	3,576
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(7,235)
Pro forma	$47,934
Net Income Per Share	
Basic	
As reported	$ .30
Pro forma	$ .28
Diluted	
As reported	$ .29
Pro forma	$ .27

Note A—Summary of Significant Accounting Policies (Continued)

The fair value of each option is estimated, as of the grant date, using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2005: expected dividend yield of 0.92%; expected volatility of 48.0%; risk-free interest rate of 3.7%; and an expected life of 6.1 years.

The Company adopted SFAS 123(R) using the modified prospective transition method. Under this transition method, the Company's Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized in the Company's Financial Statements for the three months ended March 31, 2006 included compensation expense for stock options granted prior to, but not yet vested as of December 31, 2005. The effect of applying SFAS 123(R) is outlined in the following table (in thousands, except per share amounts):

	Three Months Ended March 31, 2006
Income before income taxes	$(5,095)
Net income	$(3,062)
Net income per share:	
Basic	$ (0.02)
Diluted	$ (0.02)

See Note H—Stock Plans for further information.

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

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. The Company capitalized approximately $1.0 million and $1.7 million of internal-use software development costs for the three months ended March 31, 2006 and 2005, respectively.

Note B—New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—An Amendment of FASB Statements No. 133 and 140* ("SFAS 155"). SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS 155 to have a material impact on its consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets—An Amendment of FASB Statement No. 140* ("SFAS 156"). SFAS 156 provides some relief for entities that use derivatives to economically hedge fluctuations in the fair value of their servicing rights and changes how gains and losses are computed in certain transfers or securitizations. SFAS 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. Adoption of this standard is not expected to have a material effect on the Company's Financial Statements.

Note C—Deferred Income Taxes and Other Current Assets

Deferred income taxes and other current assets consisted of the following (in thousands):

	March 31, 2006	December 31, 2005
Deferred income taxes	$ 34,314	$ 45,429
Deposits in trusts for employee benefits and retirement plans	35,571	34,612
Other	33,242	27,249
	$103,127	$107,290

Note D—Goodwill and Other Intangible Assets, Net

The following table sets forth the activity in goodwill and other intangible assets from December 31, 2005 through March 31, 2006 (in thousands):

	Goodwill	Other Intangible Assets	Total
Balance as of December 31, 2005	$164,131	$ 1,726	$165,857
Purchase of intangible assets	6,182	1,066	7,248
Translation adjustments	95	—	95
Decrease in unamortized retirement costs	—	(1,038)	(1,038)
	170,408	1,754	172,162
Amortization of intangible assets	—	(145)	(145)
Balance as of March 31, 2006	$170,408	$ 1,609	$172,017

The estimated remaining amortization expense is $0.7 million for 2006, and $0.8 million thereafter.

Note E—Property and Equipment, Net

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

	March 31, 2006	December 31, 2005
Computer hardware	$ 115,164	$ 110,440
Computer software	196,241	190,069
Furniture and equipment	107,947	100,690
Leasehold improvements	77,984	75,401
Other	14,390	13,544
Property and equipment, cost	511,726	490,144
Accumulated depreciation	(392,638)	(379,629)
Property and equipment, net	$ 119,088	$ 110,515

Note F—Accrued Payroll Costs and Retirement Obligations

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

	March 31, 2006	December 31, 2005
Payroll and benefits	$158,589	$134,541
Employee retirement obligations	49,870	50,327
Workers' compensation	23,978	21,424
Payroll taxes	37,421	33,217
	$269,858	$239,509

Included in employee benefits and retirement obligations is $42 million at March 31, 2006 and December 31, 2005 related to a defined benefit retirement agreement for the Company's Chief Executive Officer. The amount of this obligation has been calculated in accordance with the current provisions of the employee's retirement agreement, which was initially entered into in 1985. The key assumptions used in this calculation include: expected retirement age, mortality, expected post retirement Consumer Price Index increases of 3.5% and 2.8%, and discount rates of 4.9% and 4.0% at March 31, 2006 and December 31, 2005, respectively.

Note G—Commitments and Contingencies

On September 10, 2004, Plaintiff Mark Laffitte, on behalf of a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. Dismissals as to the Company's subsidiaries were filed with the Court on February 8, 2006. Cross-motions concerning class certification are scheduled to be heard by the court on May 16, 2006. This litigation is at an early stage and discovery has commenced. At this early stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against litigation.

On December 6, 2004, Plaintiffs Ian O'Donnell and David Jolicoeur, on behalf of themselves and a putative class of salaried Staffing Managers, Account Executives and Account Managers, filed a complaint in Massachusetts Superior Court naming the Company and one of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Staffing Managers, Account Executives and Account Managers based in Massachusetts within the past two years have been misclassified under Massachusetts law as exempt employees and seeks an unspecified amount equal to three times their unpaid overtime compensation alleged to be due to them had they been paid as non-exempt, hourly employees, plus costs and legal fees. The complaint also makes similar allegations under the U.S. Fair Labor Standards Act on behalf of all Staffing Managers, Account Executives and Account Managers employed in any state other than Massachusetts and California within the past three years and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt, hourly employees, plus an equal amount as liquidated damages. The case has been removed to the United States District Court for the District of Massachusetts. On March 30, 2006, the Court denied

Note G—Commitments and Contingencies (Continued)

Plaintiffs' first motion seeking conditional certification of their federal claims as a collective action on behalf of a group of Staffing Managers, Account Executives and Account Managers. The same day, the Court allowed Plaintiffs to amend their complaint to add claims that the Company failed to pay its exempt employees on a "salary basis" as required by Massachusetts and federal law. Plaintiffs have also filed a second motion for conditional certification of their federal claims in which they seek to represent a class of salaried employees who worked for the Company in any state other than California within three years before the original complaint was filed and seeking permission to mail class members a notice regarding their right to opt into the case as plaintiffs. The Company intends to oppose that motion. Because the litigation is at an early stage, it is not feasible to predict its outcome or a range of loss, should a loss occur. Accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On August 9, 2005, Plaintiff Lizette Greene, on behalf of herself and a putative class of salaried "inside sales persons," filed a complaint in United States District Court for the Northern District of California naming the Company and three of its wholly owned subsidiaries as Defendants. On December 1, 2005, the Plaintiff amended the Complaint. The Amended Complaint alleges that purported "inside sales persons" based in California have been misclassified under federal law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt, hourly employees. In addition, the Plaintiff also makes two claims under the California Private Attorney Generals Act seeking an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. Plaintiff also makes a claim under California Business and Professions Code § 17200 for a putative nation wide class of purported "inside sales persons." This litigation is at a very early stage and discovery only recently commenced. At this early stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On March 28, 2006, Plaintiffs Maria Pellegrino, Nadia Balici, Carolyn Cox, Kelli Maresch, Jennifer McCasland and James Rossetto, all former, salaried Account Executives based in California, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that Plaintiffs were misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. Plaintiffs also seek an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of the Plaintiff employees as exempt employees. In addition, Plaintiffs' complaint includes a cause of action for "unfair competition" under the California Business & Professions Code. Under this cause of action, Plaintiffs seek restitutionary damages of unpaid wages for themselves and "all similarly situated employees" as well as recovery of Plaintiffs' attorneys fees. At this early stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to vigorously defend against 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 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.

Note H—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 in four years. Shares offered under the plan are authorized but unissued or treasury shares.

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

Recipients of restricted stock do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and receive all dividends with respect to such shares, whether or not the shares have vested. Recipients of stock units do not pay any cash consideration for the units, do not have the right to vote, and do not receive dividends with respect to such units. Compensation expense for restricted stock and stock units is recognized on a straight-line basis over the vesting period, using the stock's fair market value on the grant date.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective transition method; accordingly, prior periods have not been restated. Stock-based compensation expense recognized in the Company's Financial Statements for the three months ended March 31, 2006 included compensation expense for stock options granted prior to, but not yet vested as of December 31, 2005.

SFAS 123(R) requires that excess tax benefits be recognized as an addition to capital surplus and that unrealized tax benefits be recognized as income tax expense unless there are excess tax benefits from previous equity awards to which it can be offset. The Company calculated the amount of eligible excess tax benefits that are available on the adoption date to offset future tax shortfalls in accordance with the long-form method described in paragraph 81 of SFAS 123(R).

Under both SFAS 123 and SFAS 123(R), the Company determines the fair value of stock options using the Black-Scholes valuation model. Under SFAS 123, the Company estimated forfeitures. SFAS 123(R) requires the Company to recognize expense over the service period for options that are expected to vest and record adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

For purposes of calculating stock-based compensation expense for retirement-eligible employees, the service period is assumed to be met on the grant date or retirement-eligible date, whichever is later.

SFAS 123(R) requires that the Company recognize compensation expense for only the portion of restricted stock and restricted stock units that are expected to vest, rather than recording forfeitures when they occur, as previously permitted. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

SFAS 123(R) requires the cumulative effect of recognizing compensation expense to be recorded using estimated forfeitures rather than recording actual forfeitures as they occur. Upon adoption, the Company reviewed the cumulative effect of this change in accounting policy and determined it was not necessary to record a cumulative adjustment as the impact was immaterial.

Note H—Stock Plans (Continued)

Prior to January 1, 2006, the measurement date for performance-based grants was the date the performance criteria was met. As a result of adoption of SFAS 123(R), the Company no longer has employee stock awards subject to variable accounting treatment. Accordingly, compensation cost for all restricted stock and restricted stock units is based on the fair market value of the Company's stock on the date of grant and is recognized over the service period.

SFAS 123(R) no longer requires the recognition of deferred compensation upon grant of restricted stock. On January 1, 2006, deferred compensation related to awards issued prior to the adoption of SFAS 123(R) was reduced to zero with a corresponding decrease to capital surplus. In addition, SFAS 123(R) will require the Company to reflect the tax savings resulting from tax deductions in excess of expense reflected in its Financial Statements as a financing cash flow, which will impact the Company's future reported cash flows from operating activities.

Stock-based compensation expense related to stock options recognized under SFAS 123(R) for the three months ended March 31, 2006 was $5.1 million. As of March 31, 2006, total unrecognized compensation cost, net of estimated forfeitures, was $23.8 million related to stock options and $90.2 million related to restricted stock and restricted stock units. The unrecognized compensation cost is expected to be recognized over the next 4 years. There was no stock-based compensation expense related to stock options recognized during the three months ended March 31, 2005.

The following table reflects activity under all stock plans from December 31, 2005 through March 31, 2006 (in thousands, except per share amounts):

	Restricted Stock Plans		Stock Option Plans	
	Number of Shares/ Units	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2005	3,848	$26.32	20,973	$18.77
Granted	779	$37.43	—	—
Exercised	—	—	(2,192)	$13.10
Restrictions Lapsed	(735)	$22.02	—	—
Forfeited	(16)	$32.25	(76)	$24.08
Outstanding, March 31, 2006	3,876	$29.35	18,705	$19.41

The total pre-tax intrinsic value of stock options exercised during the three months ended March 31, 2006 and 2005 was $51.4 million and $8.7 million, respectively. The total fair value of shares vested during the three months ended March 31, 2006 and 2005 was $27.4 million and $23.7 million, respectively.

Note H—Stock Plans (Continued)

The following table summarizes information about options outstanding as of March 31, 2006 (in thousands, except number of years and per share amounts):

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number Outstanding as of March 31, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable as of March 31, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$9.73 to $14.28	4,368	3.44	$12.70		4,333	3.41	$12.70	
$14.37 to $17.75	3,228	6.07	$16.68		2,256	5.80	$16.77	
$18.20 to $20.94	3,612	2.70	$19.65		3,476	2.56	$19.65	
$21.00 to $22.56	3,398	5.59	$22.03		2,788	5.17	$22.15	
$22.70 to $27.82	3,446	7.16	$25.57		1,633	6.28	$25.25	
$27.84 to $34.75	653	7.01	$30.41		354	5.35	$29.57	
	18,705	4.95	$19.41	$359,054	14,840	4.26	$18.50	$298,377

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $38.61 as of March 31, 2006, which would have been received by the option holders had all option holders exercised their options as of that date.

At March 31, 2006, the total number of available shares to grant under the plan (consisting of either restricted stock or options) was 7.6 million. Of the 18.7 million options outstanding at March 31, 2006, 14.8 million options were exercisable with a weighted average exercise price of $18.50 and 3.9 million options were not exercisable with a weighted average exercise price of $22.91.

Note I—Net Income Per Share

The calculation of net income per share for the three months ended March 31, 2006 and 2005 is reflected in the following table (in thousands, except per share amounts):

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net Income	$ 65,503	$ 51,593
Basic:		
Weighted average shares	167,390	169,898
Diluted:		
Weighted average shares	167,390	169,898
Potentially dilutive shares	6,584	6,309
Diluted shares	173,974	176,207
Net Income Per Share:		
Basic	$ .39	$ .30
Diluted	$ .38	$ .29

The weighted average diluted common shares outstanding for both the three months ended March 31, 2006 and 2005 excludes the dilutive effect of approximately 0.4 million options. Employee stock options will have a dilutive effect under the treasury method only when the respective period's average market value of the

Note I—Net Income Per Share (Continued)

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. The computation of potentially dilutive shares also included unvested restricted stock.

Note J—Business Segments

The Company, which defines its segments based on the nature of services, has three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. The temporary and consultant segment provides specialized staffing in the accounting and finance, administrative and office, information technology, legal, advertising, marketing and web design fields. The permanent placement segment provides full-time personnel in the accounting, finance, administrative and office, and information technology fields. The risk consulting 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 or loss from operations before interest income, intangible amortization expense, and income taxes.

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

	Three Months Ended March 31,	
	2006	2005
Net service revenues		
Temporary and consultant staffing	$746,769	$612,972
Permanent placement staffing	75,484	46,229
Risk consulting and internal audit services	121,671	110,747
	$943,924	$769,948
Operating income		
Temporary and consultant staffing	$ 76,833	$ 52,107
Permanent placement staffing	16,900	9,532
Risk consulting and internal audit services	11,989	21,880
	105,722	83,519
Amortization of intangible assets	146	74
Interest income, net	(3,497)	(1,832)
Income before income taxes	$109,073	$ 85,277

Note K—Subsequent Event

On May 2, 2006, the Company announced a quarterly dividend of $.08 per share to be paid to all shareholders of record on May 25, 2006. The dividend will be paid on June 15, 2006.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain information contained in Management's Discussion and Analysis and in other parts of this report may be deemed forward-looking statements regarding events and financial trends that may affect the Company's future operating results or financial positions. These statements may be identified by words such as "estimate", "forecast", "project", "plan", "intend", "believe", "expect", "anticipate", or variations or negatives thereof or by similar or comparable words or phrases. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. These risks and uncertainties include, but are not limited to, the following: changes 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; whether governments will impose additional regulations or licensing requirements on personnel services businesses in particular or on employer/employee relationships in general; whether there will be ongoing demand for Sarbanes-Oxley or other regulatory compliance services; and litigation relating to prior or current transactions or activities, including litigation that may be disclosed from time to time in the Company's SEC filings. 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.

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.

Accounts Receivable Allowances. The Company maintains accounts receivable allowances for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Estimates used in determining the accounts receivable allowances were based on current trends and historical loss statistics. Actual results may differ from these estimates, which may materially affect the Company's future financial results.

Income Tax Assets and Liabilities. In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. The Company records deferred tax assets and liabilities and evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. The likelihood of a material change in the Company's expected realization of these assets is dependent on future taxable income, its ability to use foreign tax credit carryforwards and carrybacks, final U.S. and foreign tax settlements, and the effectiveness of its tax planning strategies in the various relevant jurisdictions. While management believes that its judgments and interpretations regarding deferred income tax assets and liabilities are appropriate, significant differences in actual experience may materially affect the future financial results of the Company.

Employee Retirement Plans. The determination of the Company's obligations for its defined benefit retirement agreement for the Company's Chief Executive Officer is dependent upon various assumptions, including, among others, expected retirement age, mortality, expected post retirement Consumer Price Index increases, and discount rates. Management believes its assumptions are appropriate; however, significant differences in actual experience or significant changes in assumptions may materially affect the Company's future financial results.

Goodwill Impairment. The Company assesses the impairment of goodwill and identifiable intangible assets annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. This assessment is based upon a discounted cash flow analysis. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by management. The Company's estimates of discounted cash flow may differ from actual cash flow due to, among other things, economic conditions, changes to its business model or changes in its operating performance. Significant differences between these estimates and actual cash flow could materially affect the future financial results of the Company. The Company's annual goodwill impairment analysis, which will be performed during the second quarter, is not expected to have a material effect on the financial statements.

Workers' Compensation. The Company self-insures or retains a portion of the exposure for losses related to workers' compensation. The Company has established reserves for workers' compensation claims based on historical loss statistics and periodic third party actuarial valuations. 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 financial results.

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. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective transition method; accordingly, prior periods have not been restated. Stock-based compensation expense recognized in the Company's Financial Statements for the three months ended March 31, 2006 included compensation expense for stock options granted prior to, but not yet vested as of December 31, 2005.

Under both SFAS No. 123 ("SFAS 123"), *Share-Based Payment* and SFAS 123(R) the Company determines the fair value of stock options using the Black-Scholes valuation model. Under SFAS 123, the Company estimated forfeitures. SFAS 123(R) requires the Company to recognize expense over the service period for options that are expected to vest and record adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

SFAS 123(R) requires that the Company recognize compensation expense for only the portion of restricted stock and restricted stock units that are expected to vest, rather than recording forfeitures when they occur as previously permitted. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—An Amendment of FASB Statements No. 133 and 140* ("SFAS 155"). SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS 155 to have a material impact on its consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets—An Amendment of FASB Statement No. 140* ("SFAS 156"). SFAS 156 provides some relief for entities that use derivatives to economically hedge fluctuations in the fair value of their servicing rights and changes how gains and losses are computed in certain transfers or securitizations. SFAS 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. Adoption of this standard is not expected to have a material effect on the Company's Financial Statements.

Results of Operations for the Three Months Ended March 31, 2006 and 2005

Temporary and consultant staffing services revenues were $747 million and $613 million for the three months ended March 31, 2006 and 2005, respectively, increasing by 22% during the three months ended March 31, 2006 compared to the same period in 2005. Permanent placement revenues were $75 million and $46 million for the three months ended March 31, 2006 and 2005, respectively, increasing by 63% during the three months ended March 31, 2006 compared to the same period in 2005. Improvement in the U.S. labor markets contributed to the increase in temporary and permanent staffing services revenues for the three months ended March 31, 2006. Risk consulting and internal audit services revenues were $122 million and $111 million for the three months ended March 31, 2006 and 2005, respectively, increasing by 10% during the three months ended March 31, 2006 compared to the same period in 2005. The 2006 increase in risk consulting and internal audit services revenues is primarily due to increased brand acceptance in the marketplace and expanding demand related to increased focus on internal accounting controls and other corporate governance requirements, including the Sarbanes-Oxley Act of 2002. There can be no assurances that there will be ongoing demand for Sarbanes-Oxley or other regulatory compliance services, or that future results can be reliably predicted by considering past trends or extrapolating past results. We expect total Company revenues to continue to be impacted by general macroeconomic conditions in 2006.

The Company's temporary and permanent staffing services business has more than 340 offices in 42 states, the District of Columbia and thirteen foreign countries, while Protiviti has more than 50 offices in 22 states and eleven foreign countries. Revenues from foreign operations represented 20% and 19% of revenues for the three months ended March 31, 2006 and 2005, respectively.

Gross margin dollars from the Company's temporary and consultant staffing services represent revenues less direct costs of services, which consist of payroll, payroll taxes and insurance costs for temporary employees. Gross margin dollars from permanent placement staffing services are equal to revenues, as there are no direct costs associated with such revenues. 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, insurance costs and reimbursable expenses. Gross margin dollars for the Company's temporary and consultant staffing services were $275 million and $223 million for the three months ended March 31, 2006 and 2005, respectively, increasing by 23% in 2006. Gross margin amounts equaled 37% and 36% of revenues for temporary and consultant staffing services for the three months ended March 31, 2006 and 2005, respectively. The higher 2006 temporary and consultant gross margin percentage is primarily the result of higher bill rates and conversion revenues. Gross margin dollars for the Company's permanent placement staffing division were $75 million and $46 million for the three months ended March 31, 2006 and 2005, respectively, increasing by 63% in 2006. Gross margin dollars for the Company's risk consulting and internal audit division were $43 million and $45 million for the three months ended March 31, 2006 and 2005, respectively. Gross margin amounts equaled 35% and 41% of revenues for risk consulting and internal audit services for the three months ended March 31, 2006 and 2005, respectively. The 2006 decrease in gross margin percentage is primarily the result of lower staff utilization, headcount expansion in conjunction with new office openings and the expensing of stock options.

Selling, general and administrative expenses were $287 million in the three months ended March 31, 2006, compared to $230 million in the same period in 2005. Selling, general and administrative expenses as a percentage of revenues were 30% for both the three months ended March 31, 2006 and 2005. Selling, general and administrative expenses consist primarily of staff compensation, advertising, depreciation and occupancy costs.

For acquisitions, the Company allocates the excess of cost over the fair market value of the net tangible assets first to identifiable intangible assets, if any, and then to goodwill. 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's annual goodwill impairment analysis, which is not expected to have a material effect on the financial statements, will be performed in the second quarter. Net intangible assets, consisting primarily of goodwill, represented 13% of total assets and 17% of total stockholders' equity at March 31, 2006.

Interest income for the three months ended March 31, 2006 and 2005, was $4.1 million and $2.1 million, respectively, while interest expense for the three months ended March 31, 2006 and 2005, was $0.6 million and $0.3 million, respectively. Higher average cash balances and higher interest rates during the three months ended March 31, 2006 yielded higher interest income.

The provision for income taxes was 40% and 39% of income before taxes for the three months ended March 31, 2006 and 2005, respectively.

Liquidity and Capital Resources

The change in the Company's liquidity during the three months ended March 31, 2006 and 2005 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 principal payments on outstanding notes payable.

Cash, cash equivalents and marketable securities were $473 million and $453 million at March 31, 2006 and 2005, respectively. Operating activities provided $101 million during the three months ended March 31, 2006, partially offset by $31 million and $57 million of net cash used in investing activities and financing activities, respectively. Operating activities and investing activities provided $73 million and $56 million during the three months ended March 31, 2005, partially offset by $42 million of net cash used in financing activities.

Operating activities—Net cash provided by operating activities for the three months ended March 31, 2006 was composed of net income of $65 million adjusted for non-cash items of $21 million, and net cash provided by changes in working capital of $15 million. Net cash provided by operating activities for the three months ended March 31, 2005 was composed of net income of $52 million adjusted for non-cash items of $23 million, and net cash used for changes in working capital of $2 million.

Investing activities—Cash used in investing activities for the three months ended March 31, 2006 was $31 million. This was primarily composed of capital expenditures of $24 million and purchases of goodwill and other assets of $6 million. Cash provided by investing activities for the three months ended March 31, 2005 was $56 million. This was primarily proceeds from sales and maturities of marketable securities of $69 million, partially offset by capital expenditures of $13 million.

Financing activities—Cash used in financing activities for the three months ended March 31, 2006 was $57 million. This included repurchases of $91 million in common stock and $14 million in cash dividends to stockholders, partially offset by proceeds of $29 million from exercises of stock options and the excess tax benefits from stock-based compensation of $19 million. Cash used in financing activities for the three months ended March 31, 2005 was $42 million. This included common stock repurchases of $41 million and cash dividends to stockholders of $12 million, partially offset by proceeds of $11 million from exercises of stock options.

As of March 31, 2006, the Company is authorized to repurchase, from time to time, up to 8.0 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the three months ended March 31, 2006 and 2005, the Company repurchased approximately 1.2 million and 1.6 million shares of common stock on the open market for a total cost of $44 million and $43 million, respectively. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of applicable statutory withholding taxes. During the three months ended March 31, 2006 and 2005, such repurchases totaled approximately 1.3 million and 0.4 million shares at a cost of $47 million and $10 million, respectively. Repurchases of securities have been funded with cash generated from operations.

The Company's working capital at March 31, 2006 included $473 million in cash and cash equivalents. The Company's working capital requirements relate primarily to accounts receivable. While there can be no assurances in this regard, 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- and long-term basis.

On May 2, 2006, the Company announced a quarterly dividend of $.08 per share to be paid to all shareholders of record on May 25, 2006. The dividend will be paid on June 15, 2006.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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 earnings, investments in its foreign subsidiaries, and the intercompany transactions with its foreign subsidiaries.

For the three months ended March 31, 2006, approximately 20% of the Company's revenues were generated outside of the United States. These operations transact business in their functional currency. As a result, fluctuations in the value of foreign currencies against the U.S. dollar, particularly the Canadian dollar, British pound, and Euro, have an impact on the Company's reported results. 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.

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.

ITEM 4. Controls and Procedures

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

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On March 28, 2006, Plaintiffs Maria Pellegrino, Nadia Balici, Carolyn Cox, Kelli Maresch, Jennifer McCasland and James Rossetto, all former, salaried Account Executives based in California, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that Plaintiffs were misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. Plaintiffs also seek an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of the Plaintiff employees as exempt employees. In addition, Plaintiffs' complaint includes a cause of action for "unfair competition" under the California Business & Professions Code. Under this cause of action, Plaintiffs seek restitutionary damages of unpaid wages for themselves and "all similarly situated employees" as well as recovery of Plaintiffs' attorneys fees. At this early stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to vigorously defend against the litigation. In addition, the complaint alleges claims, and seeks damages believed to be substantially similar to the O'Donnell, Laffitte and Greene complaints, taken as a whole, as further described in Note G to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

On December 6, 2004, Plaintiffs Ian O'Donnell and David Jolicoeur, on behalf of themselves and a putative class of salaried Staffing Managers, Account Executives and Account Managers, filed a complaint in Massachusetts Superior Court naming the Company and one of its wholly owned subsidiaries as Defendants. On March 30, 2006, the Court denied Plaintiffs' first motion seeking conditional certification of their federal claims as a collective action on behalf of a group of Staffing Managers, Account Executives and Account Managers. The same day, the Court allowed Plaintiffs to amend their complaint to add claims that the Company failed to pay its exempt employees on a "salary basis" as required by Massachusetts and federal law. Plaintiffs have also filed a second motion for conditional certification of their federal claims in which they seek to represent a class of salaried employees who worked for the Company in any state other than California within three years before the original complaint was filed and seeking permission to mail class members a notice regarding their right to opt into the case as plaintiffs. The Company intends to oppose that motion. Because the litigation is at an early stage, it is not feasible to predict its outcome or a range of loss, should a loss occur. Accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation. Reference is made to Note G to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for a complete description of this case.

Item 1A. Risk Factors

There have been no material changes with regard to the risk factors previously disclosed in the Company's most recent annual report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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(d)
January 1, 2006 to January 31, 2006	168,092(a)	37.48	—	9,265,182
February 1, 2006 to February 28, 2006	1,805,025(b)	36.32	707,400	8,557,782
March 1, 2006 to March 31, 2006	522,102(c)	35.92	518,000	8,039,782
Total January 1, 2006 to March 31, 2006	2,495,219		1,225,400	

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

(b) Includes 1,097,625 shares repurchased in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of applicable withholding taxes and/or exercise price.

(c) Includes 4,102 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.

(d) 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 48,000,000 shares have been authorized for repurchase, of which 39,960,218 shares have been repurchased as of March 31, 2006.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

3.1 Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001.

3.2 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, 2003.

10.1 Stock Incentive Plan—Form of Restricted Share Agreement for Outside Directors.

31.1 Rule 13a-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

32.1 Section 1350 Certification of Chief Executive Officer.

32.2 Section 1350 Certification of Chief Financial Officer.

SIGNATURES

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

ROBERT HALF INTERNATIONAL INC.
(Registrant)

/s/ M. KEITH WADDELL

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

Date: May 5, 2006

Exhibit 10.1

Robert Half International Inc.

Stock Incentive Plan

Restricted Share Agreement

This restricted share agreement ("Agreement") is made and entered into as of ______________ (the "Grant Date"), between Robert Half International Inc., a Delaware corporation (the "Company"), and ________________________ ("Participant"). Capitalized terms not defined herein shall have the meanings assigned to them in the Company's Stock Incentive Plan (the "Plan"), a copy of which Participant represents, warrants, and acknowledges having received and reviewed. Participant also represents, warrants, and acknowledges having received and reviewed a copy of the Plan prospectus and the documents incorporated therein by reference. The Plan is incorporated by reference into this Agreement.

THE PARTIES AGREE AS FOLLOWS:

1. Shares. Pursuant to the Plan, the Company hereby transfers to Participant, and Participant hereby accepts from the Company, an award consisting of ______ Restricted Shares on the terms and conditions set forth herein and in the Plan (the "Restricted Share Award").

2. Vesting. The Restricted Share Award shall vest as to 25% of the amount thereof on each of ________________________________ and ____________, unless otherwise provided by the Plan or Section 3 hereof. The Restricted Shares are subject to Section 6(e) of the Plan to the extent they have not vested and shall be held in escrow by the Company until they have vested. In addition, any dividends paid in Shares with respect to unvested Restricted Shares by reason of Section 6(d) of the Plan or any Shares to which the Participant may be entitled by reason of application of Section 16 of the Plan to unvested Restricted Shares shall, in each case, be subject to the same terms and conditions as are applicable to unvested Restricted Shares under this Agreement and the Plan.

3. Accelerated Vesting. Notwithstanding Section 2 hereof, the Restricted Share Award shall vest upon the Participant's Outside Director Retirement (other than by reason of (a) his removal by stockholders pursuant to Article III, Section 4 of the By-laws or (b) his failure to receive the majority vote for election specified in Article II, Section 6 of the By-laws) or as provided from time to time by any other agreement between Participant and the Company or as provided by Section 3(b)(xv), Section 14 or Section 15 of the Plan, and in such case, the vesting date for any portion of the Restricted Share Award that vests under such circumstances shall be the date such portion of the award vests.

4. Restriction on Issuance of Shares.

4.1 Legality of Issuance. The Company shall not be obligated to transfer or issue any Restricted Shares pursuant to this Agreement if such transfer or issuance, in the opinion of the Company and the Company's counsel, would constitute a violation by the Company of any provision of law, including without limitation the provisions of the Securities Act.

4.2 Registration or Qualification of Securities. The Company may, but shall not be required to, register or qualify the transfer or issuance of the Restricted Shares under the Securities Act or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the transfer or issuance of the Restricted Shares pursuant hereto to comply with any law.

5. Restriction on Transfer. Regardless of whether the transfer or issuance of the Restricted Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Restricted Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

6. Stock Certificate Restrictive Legends. Stock certificates evidencing the Restricted Shares may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

7. Representations, Warranties, Covenants, and Acknowledgments of Optionee Upon Exercise of Option. Participant hereby agrees that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Restricted Shares may be conditioned upon the person receiving Restricted Shares making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

8. Tax Advice. Participant represents, warrants, and acknowledges that the Company has made no warranties or representations to Participant with respect to the income tax consequences of the transactions contemplated by this Agreement, and Participant is in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts entered into and wholly to be performed within the State of California by California residents. The parties agree that the exclusive jurisdiction and venue of any action with respect to this Agreement shall be in the Superior Court for the county in which the principal executive offices of the Company are located, or the United States District Court for the district in which the principal executive offices of the Company are located, and each of the parties hereby submits itself to the exclusive jurisdiction and venue of such courts for the purpose of such action. The parties agree that service of process in any such action may be effected by delivery of the summons and complaint in a manner provided for delivery of notices set forth herein.

10. Notices. All notices, communications and documents under this Agreement shall be in writing. All notices, communications, and documents directed to the Company and related to the Agreement, if not delivered by hand, shall be mailed to the Company's principal executive office, Attention: Secretary. The current address of the Company's principal executive office is:

Robert Half International Inc.
2884 Sand Hill Road
Menlo Park, CA 94025

Unless and until the Company is notified in writing to the contrary, all notices, communications, and documents intended for Participant and related to this Agreement, if not delivered by hand, shall be mailed to Participant's last known address as shown on the Company's books or such other address as Participant may specify by notice complying with this section. Notices, communications, and documents not delivered by hand shall be mailed by registered or certified mail, return receipt requested, postage prepaid. All mailings and deliveries related to this Agreement shall be deemed received only when actually received.

11. Binding Effect. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

12. Damages. Participant shall be liable to the Company for all costs and damages, including incidental and consequential damages and attorneys' fees, resulting from Participant's breach of this Agreement. If any party to this Agreement seeks to enforce its rights under this Agreement by legal proceedings, each party shall pay its own costs and expenses including, without limitation, all attorneys' fees.

13. Counterparts. This Agreement may be signed in any number of counterparts with the same effect as if the signatures to each such counterpart were upon a single instrument, and all counterparts shall be deemed an original of this Agreement.

14. Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

ROBERT HALF INTERNATIONAL INC.

By ____________________________________

Participant hereby accepts and agrees to be bound by all of the terms and conditions of this Agreement and the Plan.

____

Participant

EXHIBIT 31.1

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-Q 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 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: May 5, 2006

/s/ Harold M. Messmer, Jr.

Harold M. Messmer, Jr.
Chairman & CEO

EXHIBIT 31.2

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-Q 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 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: May 5, 2006

/s/ M. Keith Waddell

M. Keith Waddell
Vice Chairman, President & CFO

EXHIBIT 32.1

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 Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006 of Robert Half International Inc. (the "Form 10-Q"), I, Harold M. Messmer, Jr., Chief Executive Officer of Robert Half International Inc., certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q 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-Q 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.

/s/ Harold M. Messmer, Jr.

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

May 5, 2006

EXHIBIT 32.2

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 Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006 of Robert Half International Inc. (the "Form 10-Q"), I, M. Keith Waddell, Chief Financial Officer of Robert Half International Inc., certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q 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-Q 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.

/s/ M. Keith Waddell

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

May 5, 2006