# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003**

**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**<br>(State or other jurisdiction of incorporation or organization) | **94-1648752**<br>(I.R.S. Employer Identification No.) |
| **2884 Sand Hill Road**<br>**Suite 200**<br>**Menlo Park, California**<br>(Address of principal executive offices) | **94025**<br>(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of October 31, 2003:

171,221,306 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
**(in thousands, except share amounts)**

| | September 30, 2003 | December 31, 2002 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Cash and cash equivalents | $344,190 | $316,927 |
| Accounts receivable, less allowances of $13,770 and $12,578 | 232,774 | 223,396 |
| Deferred income taxes and other current assets | 97,090 | 102,849 |
| Total current assets | 674,054 | 643,172 |
| Goodwill and other intangible assets, net | 170,132 | 161,912 |
| Property and equipment, net | 119,170 | 130,587 |
| Deferred and other income taxes | 2,641 | — |
| Total assets | $965,997 | $935,671 |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 50,468 | $ 47,807 |
| Accrued payroll costs and retirement obligations | 158,062 | 136,342 |
| Current portion of notes payable and other indebtedness | 70 | 66 |
| Total current liabilities | 208,600 | 184,215 |
| Notes payable and other indebtedness, less current portion | 2,361 | 2,414 |
| Deferred income taxes and other liabilities | — | 4,076 |
| Total liabilities | 210,961 | 190,705 |
| Commitments and Contingencies (Note F) | | |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, $.001 par value authorized 260,000,000 shares; issued and outstanding 170,325,129 and 170,909,002 shares | 170 | 171 |
| Capital surplus | 562,871 | 543,457 |
| Deferred compensation | (35,483) | (46,311) |
| Accumulated other comprehensive income | 11,498 | 846 |
| Retained earnings | 215,980 | 246,803 |
| Total stockholders' equity | 755,036 | 744,966 |
| Total liabilities and stockholders' equity | $965,997 | $935,671 |

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
**(in thousands, except per share amounts)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (Unaudited) | | (Unaudited) | |
| Net service revenues | $501,137 | $484,778 | $1,457,327 | $1,426,370 |
| Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees | 314,026 | 309,342 | 923,189 | 882,915 |
| Gross margin | 187,111 | 175,436 | 534,138 | 543,455 |
| Selling, general and administrative expenses | 176,097 | 178,731 | 524,007 | 528,806 |
| Amortization of intangible assets | 2,791 | 2,685 | 8,325 | 3,544 |
| Interest income, net | (590) | (1,026) | (1,961) | (3,791) |
| Income (loss) before income taxes | 8,813 | (4,954) | 3,767 | 14,896 |
| Provision (benefit) for income taxes | 3,966 | (1,882) | 2,225 | 5,661 |
| Net income (loss) | $ 4,847 | $ (3,072) | $ 1,542 | $ 9,235 |
| Basic net income (loss) per share | $ .03 | $ (.02) | $ .01 | $ .05 |
| Diluted net income (loss) per share | $ .03 | $ (.02) | $ .01 | $ .05 |

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
**(in thousands)**

| | Nine Months Ended September 30, 2003 | 2002 |
|---|---|---|
| | (Unaudited) | |
| COMMON STOCK—SHARES: | | |
| Balance at beginning of period | 170,909 | 174,929 |
| Issuances (forfeitures) of restricted stock | 225 | (217) |
| Repurchases of common stock | (2,054) | (6,636) |
| Exercises of stock options | 1,245 | 2,205 |
| Balance at end of period | 170,325 | 170,281 |
| COMMON STOCK—PAR VALUE: | | |
| Balance at beginning of period | $ 171 | $ 175 |
| Issuances (forfeitures) of restricted stock | — | — |
| Repurchases of common stock | (2) | (7) |
| Exercises of stock options | 1 | 2 |
| Balance at end of period | $ 170 | $ 170 |
| CAPITAL SURPLUS: | | |
| Balance at beginning of period | $543,457 | $ 487,083 |
| Issuances (forfeitures) of restricted stock—excess over par value | 6,889 | (9,221) |
| Exercises of stock options—excess over par value | 13,108 | 33,261 |
| Tax impact of equity incentive plans | (583) | 10,491 |
| Balance at end of period | $562,871 | $ 521,614 |
| DEFERRED COMPENSATION: | | |
| Balance at beginning of period | $ (46,311) | $ (64,792) |
| Forfeitures (issuances) of restricted stock | (6,889) | 9,221 |
| Amortization of deferred compensation | 17,717 | 18,044 |
| Balance at end of period | $ (35,483) | $ (37,527) |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS): | | |
| Balance at beginning of period | $ 846 | $ (8,025) |
| Translation adjustments | 10,652 | 6,179 |
| Balance at end of period | $ 11,498 | $ (1,846) |
| RETAINED EARNINGS: | | |
| Balance at beginning of period | $246,803 | $ 391,255 |
| Repurchases of common stock—excess over par value | (32,365) | (133,728) |
| Net income | 1,542 | 9,235 |
| Balance at end of period | $215,980 | $ 266,762 |
| COMPREHENSIVE INCOME: | | |
| Net income | $ 1,542 | $ 9,235 |
| Translation adjustments | 10,652 | 6,179 |
| Total comprehensive income | $ 12,194 | $ 15,414 |

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
**(in thousands)**

| | Nine Months Ended September 30, 2003 | Nine Months Ended September 30, 2002 |
|---|---|---|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 1,542 | $ 9,235 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangible assets | 8,325 | 3,544 |
| Depreciation expense | 41,703 | 50,934 |
| Provision for deferred income taxes | (3,464) | (9,265) |
| Tax impact of equity incentive plans | (583) | 10,491 |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| (Increase) decrease in accounts receivable | (8,923) | 35,190 |
| Increase in accounts payable, accrued expenses and accrued payroll costs | 18,304 | 22,057 |
| Change in other assets, net of change in other liabilities, including deferred compensation amortization of $17,717 and $18,044 | 31,012 | 10,821 |
| Net cash flows provided by operating activities | 87,916 | 133,007 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of intangible assets and other assets | (18,109) | (19,228) |
| Capital expenditures | (29,567) | (40,823) |
| Increase in deposits to trusts for employee benefits and retirement plans | (541) | (20,962) |
| Net cash flows used in investing activities | (48,217) | (81,013) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchases of common stock | (25,496) | (129,371) |
| Principal payments on notes payable and other indebtedness | (49) | (186) |
| Proceeds from exercises of stock options | 13,109 | 33,263 |
| Net cash flows used in financing activities | (12,436) | (96,294) |
| Net increase (decrease) in cash and cash equivalents | 27,263 | (44,300) |
| Cash and cash equivalents at beginning of period | 316,927 | 346,768 |
| Cash and cash equivalents at end of period | $344,190 | $ 302,468 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid (received) during the period for: | | |
| Interest | $ 314 | $ 242 |
| Income taxes, net of refunds | $ (2,939) | $ 11,428 |
| Purchase of intangible assets and other assets: | | |
| Assets acquired | | |
| Intangible assets | $ 17,580 | $ 17,926 |
| Other | 539 | 1,490 |
| Liabilities incurred | | |
| Other | (10) | (188) |
| Cash paid, net of cash acquired | $ 18,109 | $ 19,228 |
| Non-cash items: | | |
| Stock repurchases awaiting settlement | $ 7,834 | $ 4,364 |

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
## SEPTEMBER 30, 2003
## (Unaudited)

**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, The Affiliates®, The Creative Group®,* and *Protiviti®*. The Company, through its *Accountemp*s, *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. *The Affiliates* 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* began operations on May 24, 2002, and 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, Europe, Asia, Australia and New Zealand. The Company is a Delaware corporation.

*Basis of Presentation.* The unaudited Condensed Consolidated Financial Statements of the Company are prepared in conformity with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the rules of the Securities and Exchange Commission (the "SEC"). In the opinion of management, all adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2002, 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 unaudited Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant 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 September 30, 2003, such estimates included reserves for uncollectible accounts receivable, workers' compensation losses, legal claims, income and other taxes, and certain employee retirement plans.

*Revenue Recognition.* Temporary and consultant staffing services 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. Allowances are established to estimate losses due to placed candidates not remaining employed for the Company's guarantee period, typically 90 days. Risk consulting and internal audit services revenues are recognized as services are provided. Reimbursements, including those relating to travel and out-of-pocket expenses, are included in revenues, and equivalent amounts of reimbursable expenses are included in direct costs of services.

**Note A—Summary of Significant Accounting Policies (Continued)**

*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. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), on January 1, 2002. Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. The methods used for evaluating and measuring impairment of certain intangible assets have changed in accordance with the provisions of SFAS 142. The Company completed its annual goodwill impairment test during the period ended June 30, 2003 and determined that no adjustment to the carrying value of goodwill was required. No events have occurred during the three months ended September 30, 2003 that 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.

*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 comprehensive income within Stockholders' Equity. Gains and losses resulting from foreign currency transactions are included in the unaudited Condensed Consolidated Statements of Operations, and have not been material for the periods presented.

*Stock Option Plans.* The Company accounts for its stock option plans in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). Under APB 25, the intrinsic value of the options is used to record compensation expense and, as a result, no compensation expense related to stock options is included in determining net income (loss) and net income (loss) per share in the unaudited Condensed Consolidated Financial Statements. Had compensation expense for the stock options granted been based on the estimated fair value at the award dates, as prescribed by SFAS No. 123, *Accounting for*

**Note A—Summary of Significant Accounting Policies (Continued)**

*Stock-Based Compensation* ("SFAS 123"), the Company's pro forma net income (loss) and net income (loss) per share would have been as follows (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (Unaudited) | | (Unaudited) | |
| Net Income (Loss) | | | | |
| As reported | $4,847 | $ (3,072) | $ 1,542 | $ 9,235 |
| Stock-based employee compensation expense, net of income tax effects | 4,696 | 7,409 | 17,903 | 21,861 |
| Pro forma | $ 151 | $(10,481) | $(16,361) | $(12,626) |
| Net Income (Loss) Per Share | | | | |
| Basic | | | | |
| As reported | $ .03 | $ (.02) | $ .01 | $ .05 |
| Pro forma | $ .00 | $ (.06) | $ (.10) | $ (.07) |
| Diluted | | | | |
| As reported | $ .03 | $ (.02) | $ .01 | $ .05 |
| Pro forma | $ .00 | $ (.06) | $ (.10) | $ (.07) |

The fair value of each option is estimated, as of the grant date, using the Black-Scholes option pricing model with the following assumptions used for grants in 2003 and 2002: no dividend yield for any year; expected volatility of 51% to 55%; risk-free interest rates of 2.1% to 4.9%; and expected lives of 1.5 to 5.8 years.

*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 | 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 of services used in the development of internal-use software. Amounts capitalized are reported as a component of computer software within property and equipment. During the nine months ended September 30, 2003, the Company capitalized approximately $8.6 million of internal-use software development costs.

**Note B—Deferred Income Taxes and Other Current Assets**

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

| | September 30, 2003 | December 31, 2002 |
|---|---|---|
| | (Unaudited) | |
| Deferred income taxes | $26,501 | $ 28,893 |
| Deposits in trusts for employee benefits and retirement plans | 30,249 | 29,707 |
| Income taxes receivable | 17,016 | 24,094 |
| Other | 23,324 | 20,155 |
| | $97,090 | $102,849 |

**Note C—Goodwill and Other Intangible Assets, Net**

The following table sets forth the activity in the intangible assets from December 31, 2002 through September 30, 2003 (in thousands):

| | Goodwill | Other Intangible Assets | Total |
|---|---|---|---|
| Balance as of December 31, 2002 | $143,965 | $17,947 | $161,912 |
| Purchase of intangible assets | 16,602 | 978 | 17,580 |
| Translation adjustments | 888 | — | 888 |
| Decrease in unamortized retirement costs | — | (1,923) | (1,923) |
| | 161,455 | 17,002 | 178,457 |
| Amortization of intangible assets | — | (8,325) | (8,325) |
| Balance as of September 30, 2003 (unaudited) | $161,455 | $ 8,677 | $170,132 |

The estimated remaining amortization expense is $2.0 million for 2003, and $0.7 million thereafter.

On July 1, 2003, the Company completed the acquisition of its last independent Robert Half franchise with offices in Overland Park, Kansas, and Kansas City, Missouri. The Company paid approximately $13 million for the purchase of intangibles and other assets, including goodwill of $11.7 million and amortizable intangible assets of approximately $0.8 million that are being amortized over 2 to 4 years.

**Note D—Property and Equipment, Net**

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

| | September 30, 2003 (Unaudited) | December 31, 2002 |
|---|---|---|
| Furniture and equipment | $ 93,068 | $ 87,154 |
| Computer hardware | 94,630 | 88,724 |
| Computer software | 152,590 | 137,182 |
| Leasehold improvements | 60,470 | 56,851 |
| Other | 10,459 | 11,027 |
| Property and equipment, cost | 411,217 | 380,938 |
| Accumulated depreciation | (292,047) | (250,351) |
| Property and equipment, net | $ 119,170 | $ 130,587 |

**Note E—Accrued Payroll Costs and Retirement Obligations**

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

| | September 30, 2003 (Unaudited) | December 31, 2002 |
|---|---|---|
| Payroll and bonuses | $ 85,250 | $ 65,944 |
| Employee benefits and retirement obligations | 49,314 | 48,198 |
| Workers' compensation | 12,410 | 14,083 |
| Payroll taxes | 11,088 | 8,117 |
| | $158,062 | $136,342 |

**Note F—Commitments and Contingencies**

The Company is involved in a number of 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.

In connection with the formation of *Protiviti*, the Company became the guarantor of certain employee notes totaling $3.0 million at September 30, 2003.

**Note G—Stock Plans**

Under various stock plans, officers, employees and outside directors may receive grants of restricted stock or options to purchase common stock. Grants are made at the discretion of a Committee of the Board of Directors. Grants generally vest between two and four years.

Options granted under the plans have exercise prices ranging from 85% to 100% of the fair market value of the Company's common stock at the date of grant and may consist of both incentive stock options

**Note G—Stock Plans (Continued)**

and nonstatutory stock options under the Internal Revenue Code. The terms range from 27 months to 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. Compensation expense is recognized on a straight-line basis over the vesting period. Vesting is accelerated upon the death or disability of the recipients.

The Company accounts for these plans under APB 25. Therefore, the intrinsic value of the options is used to record compensation expense and, as a result, no compensation expense has been recognized for its stock option plans. As required by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* ("SFAS 148"), calculations of pro forma net income and net income per share, computed in accordance with the method prescribed by SFAS 123, are set forth in Note A to the unaudited Condensed Consolidated Financial Statements.

**Note H—Net Income (Loss) Per Share**

The calculation of net income (loss) per share for the three and nine months ended September 30, 2003 and 2002 is reflected in the following table (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (Unaudited) | | (Unaudited) | |
| Net Income (Loss) | $ 4,847 | $ (3,072) | $ 1,542 | $ 9,235 |
| Basic: | | | | |
| Weighted average shares | 168,797 | 171,550 | 168,584 | 173,466 |
| Diluted: | | | | |
| Weighted average shares | 168,797 | 171,550 | 168,584 | 173,466 |
| Common stock equivalents—stock options | 4,897 | — | 3,556 | 5,637 |
| Diluted shares | 173,694 | 171,550 | 172,140 | 179,103 |
| Net Income (Loss) Per Share: | | | | |
| Basic | $ .03 | $ (.02) | $ .01 | $ .05 |
| Diluted | $ .03 | $ (.02) | $ .01 | $ .05 |

**Note I—Business Segments**

The Company has three reportable segments: temporary and consultant staffing, permanent placement staffing, and risk consulting services. The temporary and consultant segment provides specialized staffing in the accounting and finance, administrative and office, information technology, legal, advertising,

**Note I—Business Segments (Continued)**

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 profit or loss from operations before interest income, intangible amortization expense, and income taxes.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (Unaudited) | | (Unaudited) | |
| Net Service Revenues | | | | |
| Temporary and consultant staffing | $439,468 | $442,262 | $1,294,555 | $1,324,730 |
| Permanent placement staffing | 23,599 | 24,742 | 69,930 | 77,056 |
| Risk consulting and internal audit services | 38,070 | 17,774 | 92,842 | 24,584 |
| | $501,137 | $484,778 | $1,457,327 | $1,426,370 |
| Operating Income (Loss) | | | | |
| Temporary and consultant staffing | $ 11,428 | $ 13,438 | $ 29,843 | $ 39,345 |
| Permanent placement staffing | 505 | (2,026) | 1,233 | (4,208) |
| Risk consulting and internal audit services | (919) | (14,707) | (20,945) | (20,488) |
| | 11,014 | (3,295) | 10,131 | 14,649 |
| Amortization of intangible assets | 2,791 | 2,685 | 8,325 | 3,544 |
| Interest income, net | (590) | (1,026) | (1,961) | (3,791) |
| Income (loss) before income taxes | $ 8,813 | $ (4,954) | $ 3,767 | $ 14,896 |

**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 U.S. or foreign countries where the Company does business, or in particular regions or industries; reduction in the supply of qualified candidates for temporary employment or the Company's ability to attract qualified 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 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; future success of the new Protiviti subsidiary will depend on its ability to retain employees and attract clients; significant costs and diversion of management time could be incurred in integrating key personnel into Protiviti; certain capitalizable costs associated with the Protiviti employment arrangements could become impaired and written off; failure of Protiviti to produce projected revenues could adversely affect financial results; and the possibility of involvement in litigation relating to prior 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*

In response to the SEC's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we identified the Company's most critical accounting policies to be those that involve subjective decisions, assessments or estimates.

*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 certain employee retirement plans is dependent upon various assumptions, including, among others, interest rates, service periods, and future compensation levels. 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.* In accordance with the provisions of SFAS 142, 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 completed its annual goodwill impairment test during the period ended June 30, 2003 and determined that no adjustment to the carrying value of goodwill was required. The Company has determined that no events have occurred during the three months ended September 30, 2003 that would require interim testing.

*Workers' Compensation.* The Company has established reserves for workers' compensation claims based on historical loss statistics. The Company self-insures or retains a portion of the exposure for losses related to workers' compensation. It is the Company's policy to record self-insurance reserves based upon claims filed and an estimate of claims incurred but not yet reported. 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 Option Plans.* The Company has a long history of issuing stock options to employees and directors as an integral part of its compensation programs. Generally accepted accounting principles allow alternative methods of accounting for these plans. The Company has chosen to account for its stock option plans in accordance with APB 25. Under APB 25, the intrinsic value of the options is used to record compensation expense and, as a result, no compensation expense related to stock options is included in determining net income (loss) and net income (loss) per share in the unaudited Condensed Consolidated Financial Statements. As required by SFAS 148, calculations of pro forma net income (loss) and net income (loss) per share, computed in accordance with the method prescribed by SFAS 123, are set forth in Note A to the unaudited Condensed Consolidated Financial Statements.

*Results of Operations for Each of the Three Months and Nine Months Ended September 30, 2003 and 2002*

Temporary and consulting staffing services revenues were $439 million and $442 million for the three months ended September 30, 2003 and 2002, respectively, decreasing by 1% during the three months ended September 30, 2003 compared to the same period in 2002. Temporary and consultant staffing services revenues were $1.3 billion for both the nine months ended September 30, 2003 and 2002. Permanent placement revenues were $24 million and $25 million for the three months ended September 30, 2003 and 2002, respectively, decreasing by 4% during the three months ended September 30, 2003 compared to the same period in 2002. Permanent placement revenues were $70 million and $77 million for the nine months ended September 30, 2003 and 2002, respectively, decreasing by 9% during the nine months ended September 30, 2003 compared to the same period in 2002. Staffing services revenue results for the nine months ended September 30, 2003 were adversely impacted by weak labor markets and soft general economic conditions, particularly in the United States. We expect staffing revenues to continue to be impacted by general macroeconomic conditions. Risk consulting and internal audit services revenues were $38 million and $93 million for the three and nine months ended September 30, 2003. This compares to $18 million for the three months ended September 30, 2002 and $25 million for the period May 24, 2002 (inception) to September 30, 2002. The 2003 increase in risk consulting and internal audit services revenues is primarily due to increased brand acceptance in the marketplace and expanding demand for alternatives to the Big Four accounting firms in providing risk consulting services.

The Company's temporary and permanent staffing services business has more than 325 offices in 43 states, the District of Columbia and ten foreign countries, while *Protiviti* has more than 30 offices in 21 states and four foreign countries. Revenues from domestic operations represented 83% of revenues for the three months ended September 30, 2003 and 2002, and 82% of revenues for the nine months ended September 2003 and 2002. Revenues from foreign operations represented 17% of revenues for the three months ended September 30, 2003 and 2002, and 18% of revenues for the nine months ended September 2003 and 2002.

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 $154 million and $453 million for the three and nine months ended September 30, 2003, respectively, compared to $156 million and $474 million for the comparable periods in 2002, decreasing by 1% and 4% for the three and nine months ended September 30, 2003, respectively. Gross margin amounts equaled 35% of revenues for temporary and consultant staffing services for both the three and nine months ended September 30, 2003, compared to 35% and 36% for the three and nine months ended September 30, 2002, respectively. The lower 2003 temporary and consulting margin percentages are primarily due to higher unemployment insurance costs. Gross margin dollars for the Company's permanent placement staffing division were $24 million and $70 million for the three and nine months ended September 30, 2003, respectively, compared to $25 million and $77 million for the comparable periods in 2002, decreasing by 4% and 9% for the three and nine months ended September 30, 2003, respectively. Gross margin dollars for the Company's risk consulting and internal audit division were $9 million and $11 million for the three and nine months ended September 30, 2003, respectively. This compares to negative $6 million for the three months ended September 30, 2002, and negative $8 million for the period May 24, 2002 (inception) to September 30, 2002. The 2003 improvement in risk consulting and internal audit services gross margin dollars is primarily the result of higher revenues coupled with improved staff utilization.

Selling, general and administrative expenses were $176 million and $524 million for the three and nine months ended September 30, 2003, respectively, compared to $179 million and $529 million during the three and nine months ended September 30, 2002, respectively. Selling, general and administrative expenses as a percentage of revenues were 35% and 36% for the three and nine months ended September 30, 2003, respectively, compared to 37% for both the three and nine months ended September 30, 2002. Selling, general and administrative expenses consist primarily of staff compensation, advertising, depreciation and occupancy costs. The lower selling, general and administrative expense percentage resulted primarily from leveraging fixed operating 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. The Company adopted SFAS 142 on January 1, 2002, resulting in the discontinuance of the amortization of goodwill that was being amortized over 40 years. The methods used for evaluating and measuring impairment of certain intangible assets have changed in accordance with the provisions of SFAS 142. The Company completed its annual goodwill impairment test during the period ended June 30, 2003 and determined that no adjustment to the carrying value of goodwill was required. The Company has determined that no events have occurred during the three months ended September 30, 2003 that would require interim testing. Net intangible assets represented 18% of total assets and 23% of total stockholders' equity at September 30, 2003.

Interest income for the three months ended September 30, 2003 and 2002 was $0.8 million and $1.3 million, respectively, while interest expense for the three months ended September 30, 2003 and 2002 was $0.2 million. Interest income for the nine months ended September 30, 2003 and 2002 was $2.5 million and $4.5 million, respectively, while interest expense for the nine months ended September 30, 2003 and 2002 was $0.5 million and $0.7 million, respectively. Lower average cash balances and lower interest rates during the three and nine months ended September 30, 2003 resulted in lower interest income.

The provision for income taxes was 45% and 59% of income before taxes for the three and nine months ended September 30, 2003, respectively, and 38% for both the three and nine months ended September 30, 2002. The increase in 2003 is due primarily to Protiviti's losses in certain states and international locations where corresponding tax benefits are not being recognized.

*Liquidity and Capital Resources*

The change in the Company's liquidity during the nine months ended September 30, 2003 is the net effect of funds generated by operations and the funds used for capital expenditures, the purchase of intangible assets, repurchases of common stock, and principal payments on outstanding notes payable. As of September 30, 2003, the Company has authorized the repurchase, from time to time, of up to 9.6 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the nine months ended September 30, 2003, the Company repurchased 1.6 million shares of common stock on the open market for a total cost of $24.6 million. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of applicable withholding taxes. During the nine months ended September 30, 2003, such repurchases totaled 0.5 million shares at a cost of $7.8 million. Repurchases of securities have been funded with cash generated from operations. For the nine months ended September 30, 2003, the Company generated $87.9 million from operations, used $48.2 million in investing activities and used $12.4 million in financing activities. This is further enumerated in the unaudited Condensed Consolidated Statements of Cash Flows.

The Company's working capital at September 30, 2003, included $344 million in cash and cash equivalents. The Company's working capital requirements consist primarily of the financing of 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, and other obligations on both a short- and long-term basis. As of September 30, 2003, the Company had no material capital commitments. In connection with the formation of Protiviti, the Company became the guarantor of certain former Andersen partners' capital notes, which totaled $3.0 million at September 30, 2003.

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

The Company's market risk sensitive instruments do not subject the Company to material market risk exposures.

**ITEM 4. Controls and Procedures**

Management, including the Company's Chairman and Chief Executive Officer and 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 Vice Chairman and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, 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.

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**

None

**Item 2. Changes in Securities and Use of Proceeds**

None

**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 and Reports on Form 8-K**

(a) Exhibits.

10.1 Outside Directors' Option Plan, as amended.

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.

(b) The registrant filed the following current report on Form 8-K during the quarter covered by this report:

| Date | Items |
|---|---|
| July 17, 2003 | Item 7. Financial Statements and Exhibits.<br>Item 9. Regulation FD Disclosure. |

## 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, Chief Financial Officer and Treasurer*
*(Principal Financial Officer and*
*duly authorized signatory)*

Date: November 13, 2003

**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)) 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) [intentionally omitted]

    (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: November 13, 2003

/s/ HAROLD M. MESSMER, JR.

Harold M. Messmer, Jr.
Chairman, President & 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)) 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) [intentionally omitted]

   (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: November 13, 2003

/s/ M. KEITH WADDELL

M. Keith Waddell
Vice Chairman, Treasurer & 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 September 30, 2003 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.

November 13, 2003

/s/ Harold M. Messmer, Jr.

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

**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 September 30, 2003 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.

November 13, 2003

/s/ M. Keith Waddell

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