

HALF ROBERT INTERNATIONAL INC /DE/  
Form 10-K  
February 23, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2006

OR

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

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Commission file number 1-10427

**ROBERT HALF INTERNATIONAL INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE** **94-1648752**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
**2884 Sand Hill Road, Menlo Park, California** **94025**  
(Address of principal executive offices) (Zip code)  
Registrant's telephone number, including area code: **(650) 234-6000**

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

| Title of each class                      | Name of each exchange<br>on which registered |
|--|--|
| Common Stock, Par Value \$.001 per Share | New York Stock Exchange                      |

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

None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.  Yes  No

As of June 30, 2006, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$6,670,000,000 based on the closing sale price on that date. This amount excludes the market value of 12,420,810 shares of Common Stock directly or indirectly held by registrant's directors and officers and their affiliates.

As of January 31, 2007, there were outstanding 167,972,497 shares of the registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement to be mailed to stockholders in connection with the registrant's annual meeting of stockholders, scheduled to be held in May 2007, are incorporated by reference in Part III of this report. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be part of this report.

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**PART I**

**Item 1. Business**

Robert Half International Inc. (the Company) provides specialized staffing and risk consulting services through such divisions as *Accountemps*, *Robert Half Finance & Accounting*, *OfficeTeam*, *Robert Half Technology*, *Robert Half Management Resources*, *Robert Half Legal*, *The Creative Group*, and *Protiviti*. The Company, through its *Accountemps*, *Robert Half Finance & Accounting*, and *Robert Half Management Resources* divisions, is the world's largest specialized provider of temporary, full-time, and project professionals in the fields of accounting and finance. *OfficeTeam* specializes in highly skilled temporary administrative support personnel. *Robert Half Technology* provides information technology professionals. *Robert Half Legal* provides temporary, project, and full-time staffing of attorneys and specialized support personnel within law firms and corporate legal departments. *The Creative Group* provides project staffing in the advertising, marketing, and web design fields. *Protiviti* began operations in May 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.

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

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

*Accountemps*

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

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

*OfficeTeam*

The Company's *OfficeTeam* division, which commenced operations in 1991, places temporary and full-time office and administrative personnel, ranging from word processors to office managers. *OfficeTeam* operates in much the same fashion as the *Accountemps* and *Robert Half Finance & Accounting* divisions.

*Robert Half Finance & Accounting*

The Company's *Robert Half Finance & Accounting* division specializes in the placement of full-time accounting, financial, tax and banking personnel. Fees for successful placements are paid only by the employer and are generally a percentage of the new employee's annual compensation. No fee for placement services is charged to employment candidates.

*Robert Half Technology*

The Company's *Robert Half Technology* division, which commenced operations in 1994, specializes in providing information technology contract consultants and placing full-time employees in areas ranging from multiple platform systems integration to end-user support, including specialists in programming, networking, systems integration, database design and help desk support.

*Robert Half Legal*

Since 1992, the Company has been placing temporary and full-time employees in attorney, paralegal, legal administrative and legal secretarial positions through its *Robert Half Legal* division. The legal profession's requirements (the need for confidentiality, accuracy and reliability, a strong drive toward cost-effectiveness, and frequent peak workload periods) are similar to the demands of the clients of the *Accountemps* division.

*Robert Half Management Resources*

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

*The Creative Group*

*The Creative Group* division commenced operations in 1999 and serves clients in the areas of advertising, marketing and web design and places project consultants in a variety of positions such as creative directors, graphics designers, web content developers, web designers, media buyers, and public relations specialists.

*Protiviti*

*Protiviti* provides independent internal audit and business and technology risk consulting services. *Protiviti* helps clients identify, measure, and manage operational and technology-related risks they face within their industries and throughout their systems and processes. *Protiviti* offers a full spectrum of professional consulting services, technologies, and skills for business and technology risk management and the continual transformation of internal audit functions.

*Marketing and Recruiting*

The Company markets its staffing services to clients as well as employment candidates. Local marketing and recruiting are generally conducted by each office or related group of offices. Local advertising directed to

clients and employment candidates consists of radio, yellow pages, websites and trade shows. Direct marketing through e-mail, regular mail and telephone solicitation also constitutes a significant portion of the Company's total advertising. National advertising conducted by the Company consists primarily of radio and of print advertisements in national newspapers, magazines and trade journals. Additionally, the Company has expanded its use of job boards in all aspects of sales and recruitment. Joint marketing arrangements have been entered into with major software manufacturers and typically provide for development of proprietary skills tests, cooperative advertising, joint mailings and similar promotional activities. The Company also actively seeks endorsements and affiliations with professional organizations in the business management, office administration and professional secretarial fields. The Company also conducts public relations activities designed to enhance public recognition of the Company and its services. Local employees are encouraged to be active in civic organizations and industry trade groups.

*Protiviti* markets its risk consulting and internal audit services to a variety of clients in a range of industries. Industry and competency teams conduct targeted marketing efforts, both locally and nationally, including print advertising and branded speaking events, with support from *Protiviti* management. National advertising conducted by *Protiviti* consists primarily of print advertisements in national newspapers, magazines and selected trade journals. *Protiviti* has initiated a national direct mail program to share information with clients on current corporate governance and risk management issues. It conducts public relations activities, such as press releases and newsletters, designed to enhance recognition for the *Protiviti* brand, establish its expertise in key issues surrounding its business and promote its services. *Protiviti* plans to expand both the services and value added content on the *Protiviti.com* website and increase traffic through targeted Internet advertising. Local employees are encouraged to be active in civic organizations and industry trade groups.

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

#### *Organization*

Management of the Company's staffing operations is coordinated from its headquarters facilities in Menlo Park and Pleasanton, California. The Company's headquarters provides support and centralized services to its offices in the administrative, marketing, public relations, accounting, training and legal areas, particularly as it relates to the standardization of the operating procedures of its offices. As of December 31, 2006, the Company conducted its staffing services operations through more than 350 offices in 42 states, the District of Columbia and seventeen foreign countries. Office managers are responsible for most activities of their offices, including sales, local advertising and marketing and recruitment.

The day-to-day operations of *Protiviti* are managed by a committee consisting of key operating personnel, with operational and administrative support provided by individuals located in Pleasanton and Menlo Park, California. As of December 31, 2006, *Protiviti* had more than 55 offices in 22 states and fourteen foreign countries.

#### *Competition*

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

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

#### *Employees*

The Company has approximately 13,400 full-time staff employees, including approximately 2,800 engaged directly in *Protiviti* operations. The Company placed approximately 242,000 employees on temporary assignments with clients during 2006. Temporary employees placed by the Company are the Company's employees for all purposes while they are working on assignments. The Company pays the related costs of employment, such as workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company provides access to voluntary health insurance coverage to interested temporary employees.

#### *Other Information*

The Company's current business constitutes three business segments. (See Note M of Notes to Consolidated Financial Statement in Item 8. Financial Statements and Supplementary Data for financial information about the Company's segments.)

The Company is not dependent upon a single customer or a limited number of customers. The Company's staffing services operations are generally more active in the first and fourth quarters of a calendar year. *Protiviti* has been in operation since May 2002. *Protiviti* is generally more active in the third and fourth quarters of a calendar year. Order backlog is not a material aspect of the Company's staffing services business. While backlog is of greater importance to *Protiviti*, the Company does not believe, based upon the length of time of the average *Protiviti* engagement, that backlog is a material aspect of the *Protiviti* business. No material portion of the Company's business is subject to government contracts.

Information about foreign operations is contained in Note M of Notes to Consolidated Financial Statements in Item 8. The Company does not have export sales.

#### *Available Information*

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

**Item 1A. Risk Factors**

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

*Business Highly Dependent Upon the State of the Economy.* The demand for the Company's services, in particular its staffing services, is highly dependent upon the state of the economy and upon the staffing needs of the Company's clients. Any variation in the economic condition or unemployment levels of the U.S. or of any of the foreign countries in which the Company does business, or in the economic condition of any region of any of the foregoing, or in any specific industry may severely reduce the demand for the Company's services and thereby significantly decrease the Company's revenues and profits.

*Availability of Candidates.* The Company's staffing services business consists of the placement of individuals seeking employment. There can be no assurance that candidates for employment will continue to seek employment through the Company. Candidates generally seek temporary or regular positions through multiple sources, including the Company and its competitors. Any shortage of candidates could materially adversely affect the Company.

*Highly Competitive Business.* The staffing services business is highly competitive and, because it is a service business, the barriers to entry are quite low. There are many competitors, some of which have greater resources than the Company, and new competitors are entering the market all the time. In addition, long-term contracts form a negligible portion of the Company's revenue. Therefore, there can be no assurance that the Company will be able to retain clients or market share in the future. Nor can there be any assurance that the Company will, in light of competitive pressures, be able to remain profitable or, if profitable, maintain its current profit margins.

*Reputation.* The success of the Company's staffing and *Protiviti* businesses is highly dependent upon their reputations. Any event that adversely impacts the reputation of either business could materially adversely affect the Company.

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

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

*Government Regulation.* The Company's business is subject to regulation or licensing in many states and in certain foreign countries. While the Company has had no material difficulty complying with regulations in the past, there can be no assurance that the Company will be able to continue to obtain all necessary licenses or

approvals or that the cost of compliance will not prove to be material. Any inability of the Company to comply with government regulation or licensing requirements could materially adversely affect the Company.

*Government Regulation of the Workplace.* The Company's temporary services business entails employing individuals on a temporary basis and placing such individuals in clients' workplaces. Increased government regulation of the workplace or of the employer-employee relationship, or judicial or administrative proceedings related to such regulation, could materially adversely affect the Company.

*Demand for Services.* The operations of both the staffing services business and *Protiviti* include services related to Sarbanes-Oxley and other regulatory compliance. There can be no assurance that there will be ongoing demand for these services.

*Reliance on Short-Term Contracts.* Because long-term contracts are not a significant part of the Company's staffing services business, future results cannot be reliably predicted by considering past trends or extrapolating past results.

*The Company and certain subsidiaries are defendants in several class and representative action lawsuits alleging various wage and hour claims that could cause the Company to incur substantial liabilities.* The Company and certain subsidiaries are defendants in several class and representative action lawsuits brought by or on behalf of the Company's current and former employees alleging violations of federal and state law with respect to certain wage and hour matters. The Company and certain subsidiaries are currently defendants in four such lawsuits in California and one such lawsuit in Massachusetts. All five lawsuits allege, among other things, the misclassification of certain employees as exempt employees under federal and state law and other related wage and hour violations and seek an unspecified amount for unpaid overtime compensation, statutory penalties, and other damages, as well as attorneys' fees. It is not possible to predict the outcome of these lawsuits. However, these lawsuits may consume substantial amounts of the Company's financial and managerial resources and might result in adverse publicity, regardless of the ultimate outcome of the lawsuits. In addition, the Company and its subsidiaries may become subject to similar lawsuits in the same or other jurisdictions. An unfavorable outcome with respect to these lawsuits and any future lawsuits could, individually or in the aggregate, cause the Company to incur substantial liabilities that may have a material adverse effect upon the Company's business, financial condition or results of operations.

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

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

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

**Item 1B. Unresolved Staff Comments.**

Not applicable.



## Item 2. Properties

The Company's headquarters operations are located in Menlo Park and Pleasanton, California. As of December 31, 2006, placement activities were conducted through more than 350 offices located in the United States, Canada, the United Kingdom, Belgium, France, the Netherlands, Germany, the Czech Republic, Ireland, Italy, Luxembourg, Spain, Switzerland, Japan, China, Singapore, Australia and New Zealand. As of December 31, 2006, *Provititi* had more than 55 offices in the United States, Canada, Mexico, Brasil, Australia, China, France, Germany, Italy, the Netherlands, Japan, Singapore, South Korea, India and the United Kingdom. All of the offices are leased.

## Item 3. Legal Proceedings

On September 10, 2004, Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. On June 22, 2006, the Court heard cross-motions concerning class certification. On September 18, 2006, the Court issued an order certifying a class with respect to claims for alleged unpaid overtime pay but denied certification with respect to claims relating to meal periods and rest time breaks. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On 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 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 has opposed that motion, and the Court has not yet issued a ruling. 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. On December 22, 2006, the Plaintiff filed a motion for conditional certification of their federal claims in which they seek to represent a class of salaried employees who worked for the Company and certain of its subsidiaries in California within three years before the complaint was filed and seeking permission to mail class members a notice regarding their right to opt into the case as plaintiffs. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On 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. The trial date is presently scheduled for June 4, 2007. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On May 4, 2006, Plaintiff Don Tran, on behalf of himself and a putative class of salaried Consultants, and a sub-class of terminated salaried Consultants, filed a complaint in California Superior Court naming Protiviti Inc., a wholly-owned subsidiary of the Company ( Protiviti ), as Defendant. The complaint alleges that salaried Consultants 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. Plaintiff also seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. The complaint further seeks damages and penalties for the failure to provide meal and rest periods, and for the failure to reimburse business expenses, including, without limitation, parking and cellular telephone expenses. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. Protiviti believes it has meritorious defenses to the allegations, and Protiviti intends to continue to vigorously defend against the litigation.

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

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

Not applicable.

## PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
*Market Price, Dividends and Related Matters*

The Company's Common Stock is listed for trading on the New York Stock Exchange under the symbol RHI. On December 31, 2006, there were approximately 5,900 holders of record of the Common Stock.

Following is a list by fiscal quarters of the sales prices of the stock:

| 2006        | Sales Prices |          |
|-------------|--------------|----------|
|             | High         | Low      |
| 4th Quarter | \$ 39.50     | \$ 33.18 |
| 3rd Quarter | \$ 41.90     | \$ 29.91 |
| 2nd Quarter | \$ 43.94     | \$ 37.44 |
| 1st Quarter | \$ 39.81     | \$ 35.20 |

| 2005        | Sales Prices |          |
|-------------|--------------|----------|
|             | High         | Low      |
| 4th Quarter | \$ 39.86     | \$ 31.98 |
| 3rd Quarter | \$ 36.45     | \$ 24.66 |
| 2nd Quarter | \$ 27.09     | \$ 23.95 |
| 1st Quarter | \$ 31.12     | \$ 26.06 |

Cash dividends of \$.08 per share were declared and paid in each quarter of 2006. Cash dividends of \$.07 per share were declared and paid in each quarter of 2005.

*Issuer Purchases of Equity Securities*

|  | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Number of<br>Shares that May<br>Yet Be<br>Purchased<br>Under Publicly<br>Announced<br>Plans (c) |
|--|---|------------------------------------|---|--|
| October 1, 2006 to October 31, 2006        | 642,649(a)                                | \$ 37.38                           |   | 2,192,646  |
| November 1, 2006 to November 30, 2006      | 646,925(a)                                | \$ 36.44                           |   | 12,192,646   |
| December 1, 2006 to December 31, 2006      | 819,796(b)                                | \$ 37.72                           | 819,400   | 11,373,246   |
| Total October 1, 2006 to December 31, 2006 | 2,109,370                                 |                                    | 819,400   |  |

(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 396 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.

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- (c) 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. On November 1, 2006, the Company's Board of Directors authorized the repurchase, from time to time, of up to 10,000,000 additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions, bringing the total authorization since plan inception to 58,000,000 shares, of which 46,626,754 shares have been repurchased as of December 31, 2006.

The remainder of the information required by this item is incorporated by reference to Part III, Item 12 of this Form 10-K.

### Item 6. Selected Financial Data

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

|  | Years Ended December 31, |              |                        |              |              |
|--|--------------------------|--------------|------------------------|--------------|--------------|
|  | 2006                     | 2005         | 2004<br>(in thousands) | 2003         | 2002         |
| <b>Income Statement Data:</b>  |                          |              |                        |              |              |
| Net service revenues   | \$ 4,013,546             | \$ 3,338,439 | \$ 2,675,696           | \$ 1,974,991 | \$ 1,904,951 |
| Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees | 2,319,293                | 1,965,390    | 1,619,394              | 1,248,253    | 1,190,216    |
| Gross margin   | 1,694,253                | 1,373,049    | 1,056,302              | 726,738      | 714,735      |
| Selling, general and administrative expenses   | 1,243,952                | 991,488      | 824,382                | 707,349      | 709,542      |
| Amortization of intangible assets  | 851                      | 335          | 1,025                  | 10,277       | 6,281        |
| Interest income, net   | (16,752)                 | (10,948)     | (3,770)                | (2,603)      | (4,585)      |
| Income before income taxes   | 466,202                  | 392,174      | 234,665                | 11,715       | 3,497        |
| Provision for income taxes   | 183,024                  | 154,304      | 94,061                 | 5,325        | 1,329        |
| Net income   | \$ 283,178               | \$ 237,870   | \$ 140,604             | \$ 6,390     | \$ 2,168     |

|  | Years Ended December 31, |         |  |         |         |
|--|--------------------------|---------|--|---------|---------|
|  | 2006                     | 2005    | 2004<br>(in thousands, except per share amounts) | 2003    | 2002    |
| <b>Net Income Per Share:</b>             |                          |         |  |         |         |
| <b>Basic</b>                             | \$ 1.71                  | \$ 1.42 | \$ .83   | \$ .04  | \$ .01  |
| <b>Diluted</b>                           | \$ 1.65                  | \$ 1.36 | \$ .79   | \$ .04  | \$ .01  |
| <b>Shares:</b>                           |                          |         |  |         |         |
| <b>Basic</b>                             | 166,003                  | 167,664 | 169,742  | 168,719 | 172,484 |
| <b>Diluted</b>                           | 171,712                  | 174,382 | 176,866  | 173,175 | 177,791 |
| <b>Cash Dividends Declared Per Share</b> | \$ .32                   | \$ .28  | \$ .18   | \$ .00  | \$ .00  |

|   | December 31, |              |                        |            |            |
|---|--------------|--------------|------------------------|------------|------------|
|   | 2006         | 2005         | 2004<br>(in thousands) | 2003       | 2002       |
| <b>Balance Sheet Data:</b>                |              |              |                        |            |            |
| Goodwill and other intangible assets, net | \$ 178,665   | \$ 165,857   | \$ 167,931             | \$ 162,508 | \$ 161,912 |
| Total assets                              | \$ 1,459,021 | \$ 1,318,686 | \$ 1,198,657           | \$ 985,647 | \$ 937,996 |
| Long-term debt financing                  | \$ 3,831     | \$ 2,698     | \$ 2,266               | \$ 2,343   | \$ 2,414   |
| Stockholders' equity                      | \$ 1,042,671 | \$ 970,873   | \$ 911,870             | \$ 788,661 | \$ 744,966 |

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

Certain information contained in Management's Discussion and Analysis and in other parts of this report may be deemed forward-looking statements regarding events and financial trends that may affect the Company's future operating results or financial positions. These statements may be identified by words such as estimate, forecast, project, plan, intend, believe, expect, anticipate, or variations or negatives thereof, or 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. Further information regarding these and other risks and uncertainties is contained in Item 1A. Risk Factors. 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 allowances for estimated losses resulting from (i) the inability of its customers to make required payments, (ii) temporary placement sales adjustments, and (iii) permanent placement candidates not remaining with the client through the 90-day guarantee period, commonly referred to as "fall offs". The Company establishes these allowances based on its review of customers' credit profiles, historical loss statistics and current trends. The adequacy of these allowances is reviewed each reporting period. Historically, the Company's actual losses and credits have been consistent with these allowances. As a percentage of gross accounts receivable, the Company's accounts receivable allowances totaled 4.1% and 4.4% as of December 31, 2006 and 2005, respectively. As of December 31, 2006, a five-percentage point deviation in the Company's accounts receivable allowances balance would have resulted in an increase or decrease in the allowance of \$1.1 million. Although future results cannot always be predicted by extrapolating past results, management believes that it is reasonably likely that future results will be consistent with historical trends and experience. However, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, or if unexpected events or significant future changes in trends were to occur, additional allowances may be required.

*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. Deferred tax assets and liabilities are measured and recorded using current enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled. The likelihood of a material change in the Company's expected realization of 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.

The Company also evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. Management evaluates all positive and negative evidence and uses judgment regarding past and future events, including operating results, to help determine when it is more likely than not that all or some portion of our deferred tax assets may not be realized. When appropriate, a valuation allowance is recorded against deferred tax assets to offset future tax benefits that may not be realized. In relation to actual net operating losses in certain foreign operations, valuation allowances of \$11.5 million were recorded as of December 31, 2006. If such losses are ultimately utilized to offset future operating income, the Company will benefit its deferred tax assets up to the full amount of the valuation reserve.

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

*Employee Retirement Plans.* For the year ended December 31, 2005 the determination of the Company's obligations for its defined benefit retirement agreement for the Company's Chief Executive Officer was dependent upon the following assumptions: expected retirement age, mortality, expected post-retirement Consumer Price Index (CPI) increases, and discount rates. These assumptions were evaluated and updated each reporting period. A historical long-term average rate was used for CPI, while a current long term market rate was used for the discount rate. As of December 31, 2005 the CPI rate used in calculating the liability was 2.8%. The discount rate used in calculating this liability as of December 31, 2005 was 4.0%.

Effective October 1, 2006 the Key Executive Retirement Plan (the Retirement Agreement) and the Company's Deferred Compensation Plan (the DCP) were amended. Future benefit accruals under the Retirement Agreement were frozen and converted from a traditional defined benefit plan into a deferred compensation arrangement within the DCP with market rate interest amounts credited in the future on the converted amount. The balance in the Retirement Agreement as of October 1, 2006 of \$49 million, calculated by the Company and its independent actuarial advisors, was transferred to the DCP. As of December 31, 2006, employee benefit and retirement obligations included \$53 million for the Company's Chief Executive Officer for the DCP and other benefits.

*Goodwill Impairment.* The Company assesses the impairment of goodwill annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment assessments for goodwill are done at a reporting unit level. For purposes of this assessment, the Company's reporting units are its lines of business. In performing periodic impairment tests, the fair value of the reporting unit is compared to the carrying value, including goodwill and intangible assets. If the fair value exceeds the carrying value, there is no impairment. If the carrying value exceeds the fair value, however, an impairment condition exists.

The goodwill impairment assessment is based upon a discounted cash flow analysis. The estimate of future cash flows is based upon, among other things, a discount rate and certain assumptions about expected future operating performance. The discount rate used by management has been calculated on a consistent basis and has not fluctuated significantly. The primary assumptions related to future operating performance include revenue growth rates and expense levels. These assumptions are updated annually and are primarily based upon historical trends. Although management does not anticipate that these assumptions will change materially in the future, 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. The Company completed its annual goodwill impairment analysis during each of the years ended December 31, 2006 and 2005, and determined that no adjustment to the carrying value of goodwill was required. Based upon the Company's

most recent goodwill impairment analysis, management believes that unless a reporting unit were to be abandoned, the possibility of goodwill impairment as a result of a change in assumptions is unlikely.

*Workers Compensation.* Except for states which require participation in state-operated insurance funds, the Company retains the economic burden for the first \$0.5 million per occurrence in workers compensation claims. Workers compensation includes ongoing healthcare and indemnity coverage for claims and may be paid over numerous years following the date of injury. Claims in excess of \$0.5 million are insured. Workers compensation expense includes the insurance premiums for claims in excess of \$0.5 million, claims administration fees charged by the Company's workers compensation administrator, premiums paid to state-operated insurance funds, and an estimate for the Company's liability for Incurred But Not Reported ( IBNR ) claims and for the ongoing development of existing claims. Total workers compensation expense was \$12.4 million and \$11.4 million, representing 0.39% and 0.42% of applicable U.S. revenue for the years ended December 31, 2006 and 2005, respectively.

The accrual for IBNR claims and for the ongoing development of existing claims in each reporting period includes estimates. The Company has established reserves for workers compensation claims using loss development rates which are estimated using periodic third party actuarial valuations based upon historical loss statistics which include the Company's historical frequency and severity of workers compensation claims, and an estimate of future cost trends. While management believes that its assumptions and estimates are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's future results. Based on the Company's results for the year ended December 31, 2006, a five-percentage point deviation in the Company's estimated loss development rates would have resulted in an increase or decrease in the allowance of \$0.5 million.

*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 Consolidated Financial Statements ( Financial Statements ) for the year ended December 31, 2006 included compensation expense for stock options, which includes grants made prior to, but not yet vested as of December 31, 2005, as well as stock options granted during the year ended December 31, 2006.

Beginning in 2005, the Company significantly decreased its use of stock options as part of its compensation programs. For the year ended December 31, 2006, the Company's pre-tax stock-based compensation cost from options totaled \$17.6 million. Under both SFAS No. 123 ( SFAS 123 ), *Accounting for Stock-Based Compensation* and SFAS 123(R) the Company determined the fair value of stock options using the Black-Scholes valuation model.

SFAS 123(R) requires the Company to recognize compensation expense for only the portion of restricted stock and stock units that is expected to vest, rather than record 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. For the year ended December 31, 2006, compensation expense related to restricted stock and stock units was \$40.8 million, of which \$10.2 million was related to grants made in 2006. A one-percentage point deviation in the estimated forfeiture rates would have resulted in a \$0.4 million increase or decrease in compensation expense related to restricted stock and stock units for the year ended December 31, 2006.

#### *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 Financial Statements.

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.

In June 2006, the FASB ratified Emerging Issues Task Force ( EITF ) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*. This standard allows companies to present in their statements of operations any taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between a seller and a customer, such as sales, use, value-added and some excise taxes, on either a gross (included in revenues and costs) or a net (excluded from revenues) basis. This standard will be effective for the Company in interim periods and fiscal years beginning after December 15, 2006. The Company presents these transactions on a net basis and intends to continue this presentation in the future, therefore the adoption of this standard will have no impact on its Financial Statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), effective for fiscal years beginning after December 15, 2006. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company does not expect the adoption of FIN 48 to have a material impact on its Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not expect the adoption of SFAS 157 to have a material impact on its Financial Statements.

In September 2006, the FASB ratified EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* ( EITF 06-4 ). EITF 06-4 indicates that an employer should recognize a liability for future post-employment benefits based on the substantive agreement with the employee, and is effective for fiscal years beginning after December 15, 2007. The Company will adopt EITF 06-4 as required and does not expect a material impact on its Financial Statements.

In September 2006, the EITF reached a consensus on EITF Issue 06-5, *Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* ( EITF 06-5 ). EITF 06-5 requires that a policyholder should consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract on a policy by policy basis. EITF 06-5 is effective for fiscal years beginning after December 15, 2006 and it requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company does not expect the adoption of EITF 06-5 to have a material impact on its Financial Statements.

*Results of Operations for the Three Years Ended December 31, 2006*

Temporary and consultant staffing services revenues were \$3.1 billion, \$2.6 billion and \$2.2 billion for the years ended December 31, 2006, 2005 and 2004, respectively, increasing by 19% and 21% in 2006 and 2005, respectively. Permanent placement revenues were \$336 million, \$219 million and \$136 million for the years ended December 31, 2006, 2005 and 2004, respectively, increasing by 53% and 61% in 2006 and 2005, respectively. Improvement in the U.S. labor markets contributed to the increase in temporary and permanent staffing services revenues for the years ended December 31, 2006 and 2005. Risk consulting and internal audit services revenues were \$543 million, \$479 million and \$352 million for the years ended December 31, 2006, 2005 and 2004, respectively, increasing by 13% and 36% in 2006 and 2005, respectively. The 2006 increase in risk consulting and internal audit services revenues is primarily due to higher international revenues, particularly in Asia. The 2005 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 2007.

The Company's temporary and permanent staffing services business has more than 350 offices in 42 states, the District of Columbia and 17 foreign countries, while Protiviti has more than 55 offices in 22 states and 14 foreign countries. Revenues from foreign operations represented 21%, 19% and 18% of revenues for the years ended December 31, 2006, 2005 and 2004, 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 \$1.2 billion, \$963 million and \$787 million for the years ended December 31, 2006, 2005 and 2004, respectively, increasing by 20% and 22% in 2006 and 2005, respectively. Gross margin amounts equaled 37%, 36% and 36% of revenues for temporary and consultant staffing services for the years ended December 31, 2006, 2005 and 2004, respectively. The higher 2006 temporary and consultant gross margin percentage is primarily the result of higher bill rates and conversion revenues. Conversion revenues are earned when a temporary position converts to a permanent position. As there are no direct costs related to conversion revenues, the gross margin percentage is favorably impacted as the mix of conversion revenues increases. In the year ended December 31, 2006, the composition of temporary revenues included higher conversion revenues as compared to 2005.

Gross margin dollars for the Company's permanent placement staffing division were \$336 million, \$219 million and \$136 million for the years ended December 31, 2006, 2005 and 2004, respectively, increasing by 53% and 61% in 2006 and 2005, respectively. Gross margin dollars for the Company's risk consulting and internal audit division were \$199 million, \$190 million and \$133 million for the years ended December 31, 2006, 2005 and 2004, respectively, increasing by 5% and 43% in 2006 and 2005, respectively. Gross margin amounts equaled 37%, 40% and 38% of revenues for risk consulting and internal audit services for the years ended December 31, 2006, 2005 and 2004, respectively. The 2006 decrease in gross margin percentage is primarily the result of additional professional staff related to the expansion of international operations as well as lower utilization of the professional staff in the United States. The 2005 improvement in risk consulting and internal audit services gross margin dollars is primarily the result of higher revenues and improved staff utilization.

Selling, general and administrative expenses were \$1.2 billion in 2006, compared to \$991 million in 2005 and \$824 million in 2004. Selling, general and administrative expenses as a percentage of revenues were 31%, 30% and 31% for the years ended December 31, 2006, 2005 and 2004, respectively. Selling, general and

administrative expenses consist primarily of staff compensation, advertising, depreciation and occupancy costs. The expensing of stock options, the higher mix of permanent placement activities, and the continuing additions to professional staff all contributed to the higher percentage of 2006 selling, general and administrative expenses. The lower 2005 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. Identifiable intangible assets are amortized over their lives, typically ranging from two to five years. Goodwill is not amortized, but is tested at least annually for impairment. The Company completed its annual goodwill impairment analysis during each of the years ended December 31, 2006 and 2005, and determined that no adjustment to the carrying value of goodwill was required. Net intangible assets, consisting primarily of goodwill, represented 12% of total assets and 17% of total stockholders' equity at December 31, 2006.

Interest income for the years ended December 31, 2006, 2005 and 2004 was \$19.3 million, \$12.1 million and \$5.0 million, respectively, while interest expense for the years ended December 31, 2006, 2005 and 2004 was \$2.5 million, \$1.1 million and \$1.2 million, respectively. Higher average cash balances in 2006 and 2005 and higher interest rates during those years yielded higher interest income.

The provision for income taxes was 39%, 39% and 40% of income before taxes for the years ended December 31, 2006, 2005 and 2004, respectively. The decrease in 2005 is due primarily to the diminishing impact of permanent non-deductible tax items, which became increasingly less significant relative to the Company's improved financial results, and to the utilization of net operating loss carryforwards in certain states and international locations.

#### *Liquidity and Capital Resources*

The change in the Company's liquidity during the years ended December 31, 2006, 2005 and 2004 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 \$447 million, \$458 million and \$437 million at December 31, 2006, 2005 and 2004, respectively. Operating activities provided \$376 million during the year ended December 31, 2006, partially offset by \$96 million and \$299 million of net cash used in investing activities and financing activities, respectively. Operating activities and investing activities provided \$328 million and \$22 million, respectively, during the year ended December 31, 2005, partially offset by \$232 million of net cash used in financing activities. Operating activities provided \$162 million during the year ended December 31, 2004, partially offset by \$37 million and \$76 million of net cash used in investing activities and financing activities, respectively.

**Operating activities** Net cash provided by operating activities for the year ended December 31, 2006 was composed of net income of \$283 million adjusted for non-cash items of \$58 million, and net cash provided by changes in working capital of \$35 million. Net cash provided by operating activities for the year ended December 31, 2005 was composed of net income of \$238 million adjusted for non-cash items of \$122 million, and net cash used for changes in working capital of \$32 million. Net cash provided by operating activities for the year ended December 31, 2004 was composed of net income of \$141 million adjusted for non-cash items of \$93 million, and net cash used for changes in working capital of \$72 million.

**Investing activities** Cash used in investing activities for the year ended December 31, 2006 was \$96 million. This was primarily composed of capital expenditures of \$80 million, purchases of goodwill and other intangible assets of \$12 million, and deposits to trusts for employee benefits and retirement plans of \$4 million. Cash provided by investing activities for the year ended December 31, 2005 was \$22 million. This

was primarily composed of proceeds from sales and maturities of marketable securities of \$92 million, partially offset by capital expenditures of \$62 million, purchases of goodwill and other intangible assets of \$4 million, and deposits to trusts for employee benefits and retirement plans of \$3 million. Cash used in investing activities for the year ended December 31, 2004 was \$37 million. This was primarily composed of capital expenditures of \$33 million.

Financing activities Cash used in financing activities for the year ended December 31, 2006 was \$299 million. This included repurchases of \$400 million in common stock and \$54 million in cash dividends to stockholders, partially offset by proceeds of \$105 million from exercises of stock options and the excess tax benefits from stock-based compensation of \$50 million. Cash used in financing activities for the year ended December 31, 2005 was \$232 million. This included repurchases of \$262 million in common stock and \$48 million in cash dividends to stockholders, partially offset by proceeds of \$77 million from exercises of stock options. Cash used in financing activities for the year ended December 31, 2004 was \$76 million. This included common stock repurchases of \$90 million and cash dividends to stockholders of \$31 million, partially offset by proceeds of \$44 million from exercises of stock options.

As of December 31, 2006, the Company is authorized to repurchase, from time to time, up to 11.4 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the years ended December 31, 2006, 2005 and 2004, the Company repurchased approximately 7.9 million, 7.6 million and 2.7 million shares of common stock on the open market for a total cost of \$273 million, \$222 million and \$64 million, respectively. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. During the years ended December 31, 2006, 2005 and 2004, such repurchases totaled approximately 3.3 million, 1.6 million and 1.0 million shares at a cost of \$127 million, \$53 million and \$25 million, respectively. Repurchases of securities have been funded with cash generated from operations.

The Company's working capital at December 31, 2006 included \$447 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 February 13, 2007, the Company announced a quarterly dividend of \$.10 per share to be paid to all shareholders of record on February 26, 2007. The dividend will be paid on March 15, 2007.

The Company's cash flows generated from operations are also the primary source for funding various contractual obligations. The table below summarizes the Company's major commitments as of December 31, 2006 (in thousands):

| Contractual Obligations     | Payments due by period |                   |                  |                  | Total             |
|-----------------------------|------------------------|-------------------|------------------|------------------|-------------------|
|                             | 2007                   | 2008 and 2009     | 2010 and 2011    | Thereafter       |                   |
| Long-term debt obligations  | \$ 567                 | \$ 2,300          | \$ 555           | \$ 2,527         | \$ 5,949          |
| Operating lease obligations | 83,944                 | 135,833           | 74,300           | 29,498           | 323,575           |
| Purchase obligations        | 28,494                 | 6,753             | 4                |                  | 35,251            |
| Other long-term liabilities | 411                    | 1,297             | 772              | 5,258            | 7,738             |
| <b>Total</b>                | <b>\$ 113,416</b>      | <b>\$ 146,183</b> | <b>\$ 75,631</b> | <b>\$ 37,283</b> | <b>\$ 372,513</b> |

Long-term debt obligations consist of promissory notes and related interest as well as other forms of indebtedness issued in connection with certain acquisitions and other payment obligations. Operating lease obligations consist of minimum rental commitments for 2007 and thereafter under non-cancelable leases in effect at December 31, 2006. Purchase obligations consist of purchase commitments primarily related to telecom service agreements, software licenses and subscriptions, and computer hardware and software maintenance agreements.

**Item 7A. 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 year ended December 31, 2006, approximately 21% 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 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 8. Financial Statements and Supplementary Data****ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands, except share amounts)

|   | December 31,        |                     |
|---|---------------------|---------------------|
|   | 2006                | 2005                |
| <b>ASSETS</b>   |                     |                     |
| Cash and cash equivalents   | \$ 447,479          | \$ 458,358          |
| Accounts receivable, less allowances of \$22,495 and \$20,766   | 531,824             | 451,260             |
| Deferred income taxes and other current assets  | 133,052             | 107,290             |
| <b>Total current assets</b>   | <b>1,112,355</b>    | <b>1,016,908</b>    |
| Goodwill and other intangible assets, net   | 178,665             | 165,857             |
| Property and equipment, net   | 132,081             | 110,515             |
| Deferred income taxes   | 35,920              | 25,406              |
| <b>Total assets</b>   | <b>\$ 1,459,021</b> | <b>\$ 1,318,686</b> |
| <b>LIABILITIES</b>  |                     |                     |
| Accounts payable and accrued expenses   | \$ 99,484           | \$ 89,133           |
| Accrued payroll costs and retirement obligations  | 294,325             | 239,509             |
| Income taxes payable  | 8,568               | 7,703               |
| Current portion of notes payable and other indebtedness   | 363                 | 356                 |
| <b>Total current liabilities</b>  | <b>402,740</b>      | <b>336,701</b>      |
| Notes payable and other indebtedness, less current portion  | 3,831               | 2,698               |
| Other liabilities   | 9,779               | 8,414               |
| <b>Total liabilities</b>  | <b>416,350</b>      | <b>347,813</b>      |
| Commitments and Contingencies (Note I)  |                     |                     |
| <b>STOCKHOLDERS EQUITY</b>  |                     |                     |
| Preferred stock, \$.001 par value authorized 5,000,000 shares; issued and outstanding zero shares                       |                     |                     |
| Common stock, \$.001 par value authorized 260,000,000 shares; issued and outstanding 167,847,849 and 170,681,605 shares | 168                 | 171                 |
| Capital surplus   | 1,003,926           | 875,843             |
| Deferred compensation   |                     | (86,178)            |
| Accumulated other comprehensive income  | 38,577              | 24,987              |
| Retained earnings   |                     | 156,050             |
| <b>Total stockholders equity</b>  | <b>1,042,671</b>    | <b>970,873</b>      |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 1,459,021</b> | <b>\$ 1,318,686</b> |

The accompanying Notes to Consolidated Financial Statements

are an integral part of these financial statements.



## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

|  | Years Ended December 31, |              |              |
|--|--------------------------|--------------|--------------|
|  | 2006                     | 2005         | 2004         |
| Net service revenues   | \$ 4,013,546             | \$ 3,338,439 | \$ 2,675,696 |
| Direct costs of services, consisting of payroll, payroll taxes and insurance costs for temporary and risk consulting employees | 2,319,293                | 1,965,390    | 1,619,394    |
| Gross margin   | 1,694,253                | 1,373,049    | 1,056,302    |
| Selling, general and administrative expenses   | 1,243,952                | 991,488      | 824,382      |
| Amortization of intangible assets  | 851                      | 335          | 1,025        |
| Interest income, net   | (16,752)                 | (10,948)     | (3,770)      |
| Income before income taxes   | 466,202                  | 392,174      | 234,665      |
| Provision for income taxes   | 183,024                  | 154,304      | 94,061       |
| Net income   | \$ 283,178               | \$ 237,870   | \$ 140,604   |
| Basic net income per share   | \$ 1.71                  | \$ 1.42      | \$ .83       |
| Diluted net income per share   | \$ 1.65                  | \$ 1.36      | \$ .79       |
| Shares:  |                          |              |              |
| Basic  | 166,003                  | 167,664      | 169,742      |
| Diluted  | 171,712                  | 174,382      | 176,866      |
| Cash dividends declared per share  | \$ .32                   | \$ .28       | \$ .18       |

The accompanying Notes to Consolidated Financial Statements

are an integral part of these financial statements.



**ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands, except per share amounts)

|  | Years Ended December 31, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2006                     | 2005        | 2004        |
| <b>COMMON STOCK SHARES:</b>  |                          |             |             |
| Balance at beginning of period   | 170,682                  | 172,981     | 171,776     |
| Net issuances of restricted stock  | 1,702                    | 1,408       | 1,303       |
| Repurchases of common stock  | (11,242)                 | (9,214)     | (3,657)     |
| Exercises of stock options   | 6,706                    | 5,507       | 3,559       |
| Balance at end of period   | 167,848                  | 170,682     | 172,981     |
| <b>COMMON STOCK PAR VALUE:</b>   |                          |             |             |
| Balance at beginning of period   | \$ 171                   | \$ 173      | \$ 172      |
| Net issuances of restricted stock  | 2                        | 1           | 1           |
| Repurchases of common stock  | (12)                     | (9)         | (4)         |
| Exercises of stock options   | 7                        | 6           | 4           |
| Balance at end of period   | \$ 168                   | \$ 171      | \$ 173      |
| <b>CAPITAL SURPLUS:</b>  |                          |             |             |
| Balance at beginning of period   | \$ 875,843               | \$ 702,331  | \$ 595,051  |
| Net issuances of, and other changes to, restricted stock excess over par value |                          | 49,862      | 39,730      |
| Net issuances of restricted stock at par value                                 | (2)                      |             |             |
| Net issuances of stock units   |                          | 856         |             |
| Repurchases of common stock excess over par value                              | (14,980)                 |             |             |
| Exercises of stock options excess over par value                               | 105,366                  | 76,994      | 44,327      |
| Stock-based compensation expense restricted stock and stock units              | 40,835                   |             |             |
| Stock-based compensation expense stock options                                 | 17,628                   |             |             |
| Tax impact of equity incentive plans   | 65,414                   | 45,800      | 23,223      |
| Reclassification of deferred compensation                                      | (86,178)                 |             |             |
| Balance at end of period   | \$ 1,003,926             | \$ 875,843  | \$ 702,331  |
| <b>DEFERRED COMPENSATION:</b>  |                          |             |             |
| Balance at beginning of period   | \$ (86,178)              | \$ (63,944) | \$ (47,408) |
| Net issuances of, and other changes to, restricted stock                       |                          | (49,863)    | (39,731)    |
| Net issuances of stock units   |                          | (856)       |             |
| Amortization of deferred compensation  |                          | 28,485      | 23,195      |
| Reclassification of deferred compensation                                      | 86,178                   |             |             |
| Balance at end of period   | \$                       | \$ (86,178) | \$ (63,944) |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>                                 |                          |             |             |
| Balance at beginning of period   | \$ 24,987                | \$ 32,570   | \$ 20,018   |
| Translation adjustments, net of tax  | 13,590                   | (7,583)     | 12,552      |
| Balance at end of period   | \$ 38,577                | \$ 24,987   | \$ 32,570   |
| <b>RETAINED EARNINGS:</b>  |                          |             |             |
| Balance at beginning of period   | \$ 156,050               | \$ 240,740  | \$ 220,828  |

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|   |            |            |            |
|---|------------|------------|------------|
| Repurchases of common stock excess over par value                     | (384,825)  | (274,779)  | (89,597)   |
| Cash dividends (\$.32 per share, \$.28 per share and \$.18 per share) | (54,403)   | (47,781)   | (31,095)   |
| Net income  | 283,178    | 237,870    | 140,604    |
| Balance at end of period  | \$         | \$ 156,050 | \$ 240,740 |
| COMPREHENSIVE INCOME:   |            |            |            |
| Net income  | \$ 283,178 | \$ 237,870 | \$ 140,604 |
| Translation adjustments net of tax                                    | 13,590     | (7,583)    | 12,552     |
| Total comprehensive income  | \$ 296,768 | \$ 230,287 | \$ 153,156 |

The accompanying Notes to Consolidated Financial Statements

are an integral part of these financial statements.

## ROBERT HALF INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|  | Years Ended December 31, |                   |                   |
|--|--------------------------|-------------------|-------------------|
|  | 2006                     | 2005              | 2004              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                          |                   |                   |
| Net income   | \$ 283,178               | \$ 237,870        | \$ 140,604        |
| Adjustments to reconcile net income to net cash provided by operating activities:                |                          |                   |                   |
| Amortization of intangible assets  | 851                      | 335               | 1,025             |
| Depreciation expense   | 60,234                   | 50,994            | 48,947            |
| Stock-based compensation expense restricted stock and stock units                                | 40,835                   | 28,485            | 23,195            |
| Stock-based compensation expense stock options   | 17,628                   |                   |                   |
| Tax impact of equity incentive plans   |                          | 45,800            | 23,223            |
| Excess tax benefits from stock-based compensation  | (49,929)                 |                   |                   |
| Provision for deferred income taxes  | (19,318)                 | (13,371)          | (12,925)          |
| Provision for doubtful accounts  | 7,585                    | 10,097            | 9,721             |
| Changes in assets and liabilities, net of effects of acquisitions:                               |                          |                   |                   |
| Increase in accounts receivable  | (75,442)                 | (76,897)          | (153,386)         |
| Increase in accounts payable, accrued expenses, accrued payroll costs and retirement obligations | 49,542                   | 54,970            | 74,069            |
| Increase (decrease) in income taxes payable  | 66,166                   | (5,646)           | 12,706            |
| Change in other assets, net of change in other liabilities                                       | (5,112)                  | (5,109)           | (5,346)           |
| <b>Net cash flows provided by operating activities</b>   | <b>376,218</b>           | <b>327,528</b>    | <b>161,833</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                          |                   |                   |
| Purchase of goodwill and other intangible assets and other assets                                | (11,958)                 | (4,474)           | (1,730)           |
| Capital expenditures   | (80,446)                 | (61,751)          | (32,867)          |
| Increase in trusts for employee benefits and retirement plans                                    | (3,618)                  | (2,965)           | (409)             |
| Purchases of marketable securities   |                          | (602)             | (15,513)          |
| Proceeds from sales and maturities of marketable securities                                      |                          | 92,128            | 14,008            |
| <b>Net cash flows (used in) provided by investing activities</b>                                 | <b>(96,022)</b>          | <b>22,336</b>     | <b>(36,511)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                          |                   |                   |
| Repurchases of common stock  | (399,817)                | (262,382)         | (89,601)          |
| Cash dividends paid  | (54,403)                 | (47,781)          | (31,095)          |
| (Decrease) increase in notes payable and other indebtedness                                      | (348)                    | 711               | (71)              |
| Excess tax benefits from stock-based compensation  | 49,929                   |                   |                   |
| Proceeds from exercises of stock options   | 105,373                  | 77,000            | 44,331            |
| <b>Net cash flows used in financing activities</b>   | <b>(299,266)</b>         | <b>(232,452)</b>  | <b>(76,436)</b>   |
| Effect of exchange rate changes on cash and cash equivalents                                     | 8,191                    | (4,337)           | 9,895             |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                      | <b>(10,879)</b>          | <b>113,075</b>    | <b>58,781</b>     |
| Cash and cash equivalents at beginning of period   | 458,358                  | 345,283           | 286,502           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 447,479</b>        | <b>\$ 458,358</b> | <b>\$ 345,283</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>  |                          |                   |                   |
| Cash paid during the year for:   |                          |                   |                   |
| Interest   | \$ 537                   | \$ 507            | \$ 494            |
| Income taxes, net of refunds   | \$ 131,769               | \$ 131,967        | \$ 71,363         |

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Purchase of goodwill and other intangible assets and other assets:

Assets acquired

|                                      |           |          |          |
|--------------------------------------|-----------|----------|----------|
| Goodwill and other intangible assets | \$ 13,970 | \$ 1,750 | \$ 1,581 |
|--------------------------------------|-----------|----------|----------|

|              |       |       |     |
|--------------|-------|-------|-----|
| Other assets | 4,051 | 2,724 | 434 |
|--------------|-------|-------|-----|

Liabilities incurred

|                                   |         |  |  |
|-----------------------------------|---------|--|--|
| Notes payable and other contracts | (1,524) |  |  |
|-----------------------------------|---------|--|--|

|                   |         |  |       |
|-------------------|---------|--|-------|
| Other liabilities | (4,539) |  | (285) |
|-------------------|---------|--|-------|

|                                 |           |          |          |
|---------------------------------|-----------|----------|----------|
| Cash paid, net of cash acquired | \$ 11,958 | \$ 4,474 | \$ 1,730 |
|---------------------------------|-----------|----------|----------|

Non-cash items:

|                                       |    |           |    |
|---------------------------------------|----|-----------|----|
| Stock repurchases awaiting settlement | \$ | \$ 12,406 | \$ |
|---------------------------------------|----|-----------|----|

The accompanying Notes to Consolidated Financial Statements

are an integral part of these financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note A Summary of Significant Accounting Policies**

*Nature of Operations.* Robert Half International Inc. (the Company) provides specialized staffing and risk consulting services through such divisions as *Accountemps*<sup>®</sup>, *Robert Half*<sup>®</sup> *Finance & Accounting*, *OfficeTeam*<sup>®</sup>, *Robert Half*<sup>®</sup> *Technology*, *Robert Half*<sup>®</sup> *Management Resources*, *Robert Half*<sup>®</sup> *Legal*, *The Creative Group*<sup>®</sup>, and *Protiviti*<sup>®</sup>. The Company, through its *Accountemps*, *Robert Half Finance & Accounting*, and *Robert Half Management Resources* divisions, is a specialized provider of temporary, full-time, and project professionals in the fields of accounting and finance. *OfficeTeam* specializes in highly skilled temporary administrative support personnel. *Robert Half Technology* provides information technology professionals. *Robert Half Legal* provides temporary, project, and full-time staffing of attorneys and specialized support personnel within law firms and corporate legal departments. *The Creative Group* provides project staffing in the advertising, marketing, and web design fields. *Protiviti* provides business 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 North America, South America, Europe, Asia and Australia. The Company is a Delaware corporation.

*Basis of Presentation.* The Consolidated Financial Statements ( Financial Statements ) of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ) and the rules of the Securities and Exchange Commission ( SEC ).

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

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

*Revenue Recognition.* The Company derives its revenues from three segments: temporary and consultant staffing, permanent placement staffing, and risk consulting and internal audit services. Net service revenues as presented on the Consolidated Statements of Operations represent services rendered to customers less sales adjustments and allowances. 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.

*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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**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.

**Comprehensive Income.** Comprehensive income includes net income and certain other items that are recorded directly to Stockholders' Equity. The Company's only source of other comprehensive income is foreign currency translation adjustments.

**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.

**Goodwill and 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 completed its annual goodwill impairment analysis during each of the three years ended December 31, 2006, and determined that no adjustment to the carrying value of goodwill was required.

**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. Deferred tax assets and liabilities are measured and recorded using current enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled. The likelihood of a material change in the Company's expected realization of 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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note A Summary of Significant Accounting Policies (Continued)

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

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

*Stock-based Compensation.* Under various stock plans, officers, employees, and outside directors have received or may receive grants of restricted stock, stock units, stock appreciation rights or options to purchase common stock. 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 stock units in its Financial Statements. Under the provisions of APB 25, the Company was not required to recognize compensation expense for 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 (in thousands, except per share amounts):

|   | Years Ended       |            |
|---|-------------------|------------|
|   | December 31, 2005 | 2004       |
| Net Income  |                   |            |
| As reported   | \$ 237,870        | \$ 140,604 |
| Stock-based employee compensation expense, net of related tax effects   | 17,148            | 14,149     |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (31,466)          | (29,898)   |
| Pro forma   | \$ 223,552        | \$ 124,855 |
| Net Income Per Share  |                   |            |
| Basic   |                   |            |
| As reported   | \$ 1.42           | \$ .83     |
| Pro forma   | \$ 1.33           | \$ .74     |
| Diluted   |                   |            |
| As reported   | \$ 1.36           | \$ .79     |
| Pro forma   | \$ 1.29           | \$ .71     |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 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 and 2004: expected dividend yields of 0.92% and 0.85% for grants in 2005 and 2004, respectively; expected volatility of 47.1% and 49.4% for 2005 and 2004, respectively; risk-free interest rates of 3.8% and 3.6% for 2005 and 2004, respectively; and expected lives of 6.1 years and 6.0 years for 2005 and 2004, respectively.

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 year ended December 31, 2006 included compensation expense for stock options, which includes grants made prior to, but not yet vested as of December 31, 2005, as well as stock options granted during the year ended December 31, 2006. The effect of applying SFAS 123(R) is outlined in the following table (in thousands, except per share amounts):

|                            | Year Ended        |
|----------------------------|-------------------|
|                            | December 31, 2006 |
| Income before income taxes | \$ (17,628)       |
| Net income                 | \$ (10,707)       |
| Net income per share:      |                   |
| Basic                      | \$ (0.06)         |
| Diluted                    | \$ (0.06)         |

See Note K 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 \$8.3 million, \$4.5 million and \$5.1 million of internal-use software development costs for the years ended December 31, 2006, 2005 and 2004, 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 Financial Statements.

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



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note B New Accounting Pronouncements (Continued)**

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.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*. This standard allows companies to present in their statements of operations any taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between a seller and a customer, such as sales, use, value-added and some excise taxes, on either a gross (included in revenues and costs) or a net (excluded from revenues) basis. This standard will be effective for the Company in interim periods and fiscal years beginning after December 15, 2006. The Company presents these transactions on a net basis and intends to continue this presentation in the future, therefore the adoption of this standard will have no impact on its Financial Statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes (FIN 48)*, effective for fiscal years beginning after December 15, 2006. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company does not expect the adoption of FIN 48 to have a material impact on its Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements (SFAS 157)*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not expect the adoption of SFAS 157 to have a material impact on its Financial Statements.

In September 2006, the FASB ratified EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4)*. EITF 06-4 indicates that an employer should recognize a liability for future post-employment benefits based on the substantive agreement with the employee, and is effective for fiscal years beginning after December 15, 2007. The Company will adopt EITF 06-4 as required and does not expect a material impact on its Financial Statements.

In September 2006, the EITF reached a consensus on EITF Issue 06-5, *Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (EITF 06-5)*. EITF 06-5 requires that a policyholder should consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract on a policy by policy basis. EITF 06-5 is effective for fiscal years beginning after December 15, 2006 and it requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company does not expect the adoption of EITF 06-5 to have a material impact on its Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note C Deferred Income Taxes and Other Current Assets**

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

|   | December 31, |            |
|---|--------------|------------|
|   | 2006         | 2005       |
| Deferred income taxes   | \$ 55,066    | \$ 45,429  |
| Deposits in trusts for employee benefits and retirement plans | 38,229       | 34,612     |
| Other   | 39,757       | 27,249     |
|   | \$ 133,052   | \$ 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, 2004 through December 31, 2006 (in thousands):

|  | Goodwill   | Other<br>Intangible<br>Assets | Total      |
|--|------------|-------------------------------|------------|
| Balance as of December 31, 2004          | \$ 163,732 | \$ 4,199                      | \$ 167,931 |
| Purchase of intangible assets            | 1,250      | 500                           | 1,750      |
| Translation adjustments                  | (851)      | 76                            | (775)      |
| Decrease in unamortized retirement costs |            | (2,714)                       | (2,714)    |
|  | 164,131    | 2,061                         | 166,192    |
| Amortization of intangible assets        |            | (335)                         | (335)      |
| Balance as of December 31, 2005          | 164,131    | 1,726                         | 165,857    |
| Purchase of intangible assets            | 12,232     | 1,738                         | 13,970     |
| Translation adjustments                  | 762        | 15                            | 777        |
| Decrease in unamortized retirement costs |            | (1,088)                       | (1,088)    |
|  | 177,125    | 2,391                         | 179,516    |
| Amortization of intangible assets        |            | (851)                         | (851)      |
| Balance as of December 31, 2006          | \$ 177,125 | \$ 1,540                      | \$ 178,665 |

The estimated remaining amortization expense is \$0.9 million for 2007, and \$0.6 million thereafter.

**Note E Property and Equipment, Net**

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

| December 31, |      |
|--------------|------|
| 2006         | 2005 |

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|                              |            |            |
|------------------------------|------------|------------|
| Computer hardware            | \$ 131,591 | \$ 110,440 |
| Computer software            | 208,683    | 190,069    |
| Furniture and equipment      | 118,536    | 100,690    |
| Leasehold improvements       | 94,766     | 75,401     |
| Other                        | 15,955     | 13,544     |
| Property and equipment, cost | 569,531    | 490,144    |
| Accumulated depreciation     | (437,450)  | (379,629)  |
| Property and equipment, net  | \$ 132,081 | \$ 110,515 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note F Accrued Payroll Costs and Retirement Obligations**

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

|                                 | December 31,      |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2006              | 2005              |
| Payroll and benefits            | \$ 173,307        | \$ 134,541        |
| Employee retirement obligations | 59,129            | 50,327            |
| Workers compensation            | 24,933            | 21,424            |
| Payroll taxes                   | 36,956            | 33,217            |
|                                 | <b>\$ 294,325</b> | <b>\$ 239,509</b> |

Included in employee benefits and retirement obligations is \$42 million at December 31, 2005 related to a defined benefit retirement agreement for the Company's Chief Executive Officer. The amount of this obligation was calculated in accordance with the provisions of the employee's Retirement Agreement (the "Retirement Agreement"), which was initially entered into in 1985 and was in effect as of December 31, 2005. The key assumptions used in the calculation include: expected retirement age, mortality, expected post-retirement Consumer Price Index increase of 3.5% and discount rate of 4.0% at December 31, 2005. Effective October 1, 2006 the Retirement Agreement and the Company's Deferred Compensation Plan (the "DCP") were amended. Future benefit accruals under the Retirement Agreement were frozen and converted from a traditional defined benefit plan into a deferred compensation arrangement within the DCP with market rate interest amounts credited in the future on the converted amount. Therefore, the use of estimates no longer applies for the Retirement Agreement. Included in employee benefits and retirement obligations at December 31, 2006 is \$53 million related to the Company's Chief Executive Officer for the DCP and other benefits.

**Note G Notes Payable and Other Indebtedness**

The Company issued promissory notes as well as other forms of indebtedness in connection with certain acquisitions and other payment obligations. These are due in varying installments, carry varying interest rates and, in aggregate, amounted to \$4.2 million at December 31, 2006 and \$3.1 million at December 31, 2005. At December 31, 2006, \$2.1 million of the notes were collateralized by a standby letter of credit. The following table shows the schedule of maturities for notes payable and other indebtedness at December 31, 2006 (in thousands):

|            |                 |
|------------|-----------------|
| 2007       | \$ 363          |
| 2008       | 360             |
| 2009       | 1,580           |
| 2010       | 113             |
| 2011       | 123             |
| Thereafter | 1,655           |
|            | <b>\$ 4,194</b> |

At December 31, 2006, the notes carried fixed rates and the weighted average interest rate for the above was approximately 6.9%, 8.7% and 8.7% for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company has an uncommitted letter of credit facility (the "facility") of up to \$35.0 million, which is available to cover the issuance of debt support standby letters of credit. The Company had used \$27.0 million in debt support standby letters of credit as of December 31, 2006 and 2005. Of the debt support standby letters of credit outstanding as of December 31, 2006 and 2005, \$24.8 million satisfies workers compensation insurer's collateral requirements. There is a service fee of 1.0% on the used portion of the facility. The facility is subject to certain financial covenants and expires on August 31, 2007.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note H Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2006, 2005 and 2004 consisted of the following (in thousands):

|                   | Years Ended December 31, |            |           |
|-------------------|--------------------------|------------|-----------|
|                   | 2006                     | 2005       | 2004      |
| Current:          |                          |            |           |
| Federal           | \$ 148,926               | \$ 128,497 | \$ 78,681 |
| State             | 32,329                   | 27,746     | 17,517    |
| Foreign           | 21,087                   | 11,432     | 10,788    |
| Deferred:         |                          |            |           |
| Federal and state | (19,096)                 | (13,380)   | (15,259)  |
| Foreign           | (222)                    | 9          | 2,334     |
|                   | \$ 183,024               | \$ 154,304 | \$ 94,061 |

Income before the provision for income taxes for the years ended December 31, 2006, 2005 and 2004 consisted of the following (in thousands):

|          | Years Ended December 31, |            |            |
|----------|--------------------------|------------|------------|
|          | 2006                     | 2005       | 2004       |
| Domestic | \$ 423,312               | \$ 359,709 | \$ 219,434 |
| Foreign  | 42,890                   | 32,465     | 15,231     |
|          | \$ 466,202               | \$ 392,174 | \$ 234,665 |

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

|  | Years Ended<br>December 31, |       |       |
|--|-----------------------------|-------|-------|
|  | 2006                        | 2005  | 2004  |
| Federal U.S. income tax rate   | 35.0%                       | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit                       | 4.2                         | 4.3   | 4.2   |
| Tax-free interest income   | (0.5)                       | (0.4) | (0.2) |
| Non-deductible expenses  | 0.4                         | 0.3   | 0.3   |
| Non-U.S. income taxed at different rates, net of foreign tax credits | 0.1                         | (0.4) | 1.0   |
| Other, net   | 0.1                         | 0.5   | (0.2) |
| Effective tax rate   | 39.3%                       | 39.3% | 40.1% |

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

|                                   | Years Ended December 31, |        |        |
|-----------------------------------|--------------------------|--------|--------|
|                                   | 2006                     | 2005   | 2004   |
| Amortization of franchise rights  | \$ 972                   | \$ 912 | \$ 600 |
| Amortization of other intangibles | 339                      | 449    | (476)  |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Accrued expenses, deducted for tax when paid  | (22,154)    | (10,239)    | (9,428)     |
| Capitalized costs for books, deducted for tax | 3,673       | 226         | 3,324       |
| Depreciation                                  | (4,980)     | (6,815)     | (4,441)     |
| Other, net                                    | 2,832       | 2,096       | (2,504)     |
|   | \$ (19,318) | \$ (13,371) | \$ (12,925) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note H Income Taxes (Continued)

The deferred income tax amounts included on the Consolidated Statements of Financial Position are comprised of the following (in thousands):

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2006             | 2005             |
| Current deferred income tax assets, net   | \$ 55,066        | \$ 45,429        |
| Long-term deferred income tax assets, net | 35,920           | 25,406           |
|   | <b>\$ 90,986</b> | <b>\$ 70,835</b> |

The components of the deferred income tax amounts at December 31, 2006 and 2005 were as follows (in thousands):

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2006             | 2005             |
| <b>Deferred Income Tax Assets</b>                 |                  |                  |
| Provision for bad debts                           | \$ 6,178         | \$ 5,774         |
| Employee retirement and other benefit obligations | 45,170           | 37,442           |
| Workers compensation                              | 9,814            | 8,512            |
| Deferred compensation                             | 19,656           | 10,102           |
| Credits and net operating loss carryforwards      | 22,300           | 26,818           |
| Property and equipment basis differences          | 6,054            | 4,373            |
| Other   | 11,866           | 8,276            |
| <b>Total deferred income tax assets</b>           | <b>121,038</b>   | <b>101,297</b>   |
| <b>Deferred Income Tax Liabilities</b>            |                  |                  |
| Amortization of intangible assets                 | (14,156)         | (12,845)         |
| Unremitted earnings of foreign subsidiaries       |                  | (3,036)          |
| Other   | (4,359)          | (3,446)          |
| <b>Total deferred income tax liabilities</b>      | <b>(18,515)</b>  | <b>(19,327)</b>  |
| <b>Valuation allowance</b>                        | <b>(11,537)</b>  | <b>(11,135)</b>  |
| <b>Total deferred income tax assets, net</b>      | <b>\$ 90,986</b> | <b>\$ 70,835</b> |

The Company has net operating loss carryforwards in a number of states. The tax benefit of these net operating losses is \$4.3 million. These state net operating losses expire in 2007 and later. The Company has net operating loss carryforwards in foreign countries. The tax benefit of these net operating losses is \$11.5 million. These net operating losses expire in 2007 and later.

The Company has not provided deferred income taxes or foreign withholding taxes on \$7.0 million and \$13.9 million of undistributed earnings of its non-U.S. subsidiaries as of December 31, 2006 and 2005 respectively, since the Company intends to reinvest these earnings indefinitely. Foreign tax credits associated with these earnings are expected to offset any U.S. tax liability which would arise upon repatriation.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note I Commitments and Contingencies

Rental expense, primarily for office premises, amounted to \$83.4 million, \$75.6 million and \$74.6 million for the years ended December 31, 2006, 2005 and 2004, respectively. The approximate minimum rental commitments for 2007 and thereafter under non-cancelable leases in effect at December 31, 2006 were as follows (in thousands):

|            |            |
|------------|------------|
| 2007       | \$ 83,944  |
| 2008       | 72,637     |
| 2009       | 63,196     |
| 2010       | 48,835     |
| 2011       | 25,465     |
| Thereafter | 29,498     |
|            | \$ 323,575 |

Additionally, as of December 31, 2006, the Company had future purchase commitments of approximately \$35.3 million over the next three years primarily related to telecom service agreements, software licenses and subscriptions, and computer hardware and software maintenance agreements.

On September 10, 2004, Plaintiff Mark Laffitte, on behalf of himself and a putative class of salaried Account Executives and Staffing Managers, filed a complaint in California Superior Court naming the Company and three of its wholly owned subsidiaries as Defendants. The complaint alleges that salaried Account Executives and Staffing Managers based in California have been misclassified under California law as exempt employees and seeks an unspecified amount for unpaid overtime pay alleged to be due to them had they been paid as non-exempt hourly employees. In addition, the Plaintiff seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. On June 22, 2006, the Court heard cross-motions concerning class certification. On September 18, 2006, the Court issued an order certifying a class with respect to claims for alleged unpaid overtime pay but denied certification with respect to claims relating to meal periods and rest time breaks. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On 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 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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note I Commitments and Contingencies (Continued)**

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 has opposed that motion, and the Court has not yet issued a ruling. 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. On December 22, 2006, the Plaintiff filed a motion for conditional certification of their federal claims in which they seek to represent a class of salaried employees who worked for the Company and certain of its subsidiaries in California within three years before the complaint was filed and seeking permission to mail class members a notice regarding their right to opt into the case as plaintiffs. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On 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. The trial date is presently scheduled for June 4, 2007. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. The Company believes it has meritorious defenses to the allegations, and the Company intends to continue to vigorously defend against the litigation.

On May 4, 2006, Plaintiff Don Tran, on behalf of himself and a putative class of salaried Consultants, and a sub-class of terminated salaried Consultants, filed a complaint in California Superior Court naming Protiviti Inc., a wholly-owned subsidiary of the Company ( Protiviti ), as Defendant. The complaint alleges that salaried consultants 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. Plaintiff also seeks an unspecified amount for statutory penalties for alleged violations of the California Labor Code arising from the alleged misclassification of these employees as exempt employees. The complaint further seeks damages and penalties for the failure to provide meal and rest periods, and for the failure to reimburse

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note I Commitments and Contingencies (Continued)**

business expenses, including, without limitation, parking and cellular telephone expenses. At this stage of the litigation, it is not feasible to predict the outcome of or a range of loss, should a loss occur, from this proceeding, and accordingly, no amounts have been provided in the accompanying financial statements. Protiviti believes it has meritorious defenses to the allegations, and Protiviti intends to continue to vigorously defend against the litigation.

The Company is involved in a number of other lawsuits arising in the ordinary course of business. While management does not expect any of these 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 J Stockholders' Equity**

*Stock Repurchase Program.* As of December 31, 2006, the Company is authorized to repurchase, from time to time, up to 11.4 million additional shares of the Company's common stock on the open market or in privately negotiated transactions, depending on market conditions. During the years ended December 31, 2006, 2005 and 2004, the Company repurchased approximately 7.9 million, 7.6 million and 2.7 million shares of common stock on the open market for a total cost of \$273 million, \$222 million and \$64 million, respectively. Additional stock repurchases were made in connection with employee stock plans, whereby Company shares were tendered by employees for the payment of exercise price and applicable statutory withholding taxes. During the years ended December 31, 2006, 2005 and 2004, such repurchases totaled approximately 3.3 million, 1.6 million and 1.0 million shares at a cost of \$127 million, \$53 million and \$25 million, respectively. Repurchases of securities have been funded with cash generated from operations.

Repurchases of shares are applied first to the extent of retained earnings and any remaining amounts are applied to capital surplus. As a result, the Company had no retained earnings as of December 31, 2006.

The repurchased shares are held in treasury and are presented as if constructively retired. Treasury stock is accounted for using the cost method. Treasury stock activity for each of the three years ended December 31, 2006 (consisting of stock option exercises and the purchase of shares for the treasury) is presented in the Consolidated Statements of Stockholders' Equity.

**Note K Stock Plans**

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

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 generally recognized on a straight-line basis over the vesting period, based on 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 year ended December 31, 2006

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note K Stock Plans (Continued)**

included compensation expense for stock options, which includes grants made prior to, but not yet vested as of December 31, 2005, as well as stock options granted during the year ended December 31, 2006.

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.

During the year ended December 31, 2006, the Company granted stock options on 0.2 million shares. The assumptions utilized in the Black-Scholes valuation model for these stock options included expected dividend yield of .99%, expected volatility of 38.5%, risk-free interest rate of 4.9% and an expected life of 4.7 years.

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 the Company to recognize compensation expense for only the portion of restricted stock and stock units that is expected to vest, rather than record 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.

Prior to January 1, 2006, the measurement date for employee 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 employee restricted stock and 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) requires 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 year ended December 31, 2006 was \$17.6 million. As of December 31, 2006, total unrecognized compensation cost, net of estimated forfeitures, was \$13.1 million related to stock options and \$78.9 million related to restricted stock and 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 year ended December 31, 2005.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note K Stock Plans (Continued)

The following table reflects activity under all stock plans from December 31, 2003 through December 31, 2006, and the weighted average exercise prices (in thousands, except per share amounts):

|                                | Restricted Stock Plans |               | Stock Option Plans |                  |
|--------------------------------|------------------------|---------------|--------------------|------------------|
|                                | Number of              | Weighted      | Number of          | Weighted         |
|                                |                        | Average       |                    | Average Exercise |
|                                | Shares/<br>Units       | Fair<br>Value | Shares             | Price Per Share  |
| Outstanding, December 31, 2003 | 3,260                  | \$ 18.48      | 29,187             | \$ 16.57         |
| Granted                        | 1,275                  | \$ 27.44      | 1,968              | \$ 26.69         |
| Exercised                      |                        |               | (3,561)            | \$ 12.55         |
| Restrictions lapsed            | (1,073)                | \$ 15.74      |                    |                  |
| Forfeited                      | (18)                   | \$ 26.51      | (916)              | \$ 20.90         |
| Outstanding, December 31, 2004 | 3,444                  | \$ 22.62      | 26,678             | \$ 17.67         |
| Granted                        | 1,490                  | \$ 30.46      | 489                | \$ 30.55         |
| Exercised                      |                        |               | (5,508)            | \$ 13.98         |
| Restrictions lapsed            | (1,030)                | \$ 19.92      |                    |                  |
| Forfeited                      | (56)                   | \$ 26.03      | (686)              | \$ 23.04         |
| Outstanding, December 31, 2005 | 3,848                  | \$ 26.32      | 20,973             | \$ 18.77         |
| Granted                        | 1,953                  | \$ 35.69      | 207                | \$ 32.36         |
| Exercised                      |                        |               | (6,706)            | \$ 15.71         |
| Restrictions lapsed            | (1,152)                | \$ 23.57      |                    |                  |
| Forfeited                      | (120)                  | \$ 31.78      | (281)              | \$ 25.04         |
| Outstanding, December 31, 2006 | 4,529                  | \$ 30.92      | 14,193             | \$ 20.29         |

The total pre-tax intrinsic value of stock options exercised during the years ended December 31, 2006, 2005 and 2004 was \$150.9 million, \$108.6 million and \$50.6 million, respectively. The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was \$42.8 million, \$28.7 million and \$25.5 million, respectively.

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

| Range of<br>Exercise Prices | Options Outstanding                                    |   |                                       |                                 | Options Exercisable                                    |  |  |                                 |
|-----------------------------|--|---|---------------------------------------|---------------------------------|--|--|--|---------------------------------|
|                             | Number<br>Outstanding<br>as of<br>December 31,<br>2006 | Weighted Average<br>Remaining<br>Contractual Life | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value | Number<br>Exercisable<br>as of<br>December 31,<br>2006 | Weighted                                 |  |                                 |
|                             |  |   |                                       |                                 |  | Average<br>Remaining<br>Contractual Life | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
| \$10.41 to \$14.28          | 2,824  | 2.86  | \$ 13.58                              |                                 | 2,795  | 2.82                                     | \$ 13.58                                 |                                 |

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|                    |        |      |          |            |        |          |          |            |
|--------------------|--------|------|----------|------------|--------|----------|----------|------------|
| \$14.37 to \$17.32 | 2,522  | 5.94 | \$ 16.55 | 2,347      | 5.92   | \$ 16.61 |          |            |
| \$17.47 to \$21.17 | 2,511  | 2.68 | \$ 20.10 | 2,481      | 2.63   | \$ 20.10 |          |            |
| \$21.41 to \$22.56 | 2,530  | 4.80 | \$ 22.20 | 2,259      | 4.56   | \$ 22.28 |          |            |
| \$22.70 to \$26.56 | 2,586  | 6.37 | \$ 25.16 | 1,891      | 5.89   | \$ 25.05 |          |            |
| \$26.61 to \$34.75 | 1,220  | 7.06 | \$ 29.69 | 570        | 5.57   | \$ 28.99 |          |            |
|                    | 14,193 | 4.72 | \$ 20.29 | \$ 238,843 | 12,343 | 4.29     | \$ 19.53 | \$ 217,140 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note K Stock Plans (Continued)**

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$37.12 as of December 31, 2006, which would have been received by the option holders had all option holders exercised their options as of that date.

At December 31, 2006, the total number of available shares to grant under the plans (consisting of either restricted stock, stock units, stock appreciation rights or options to purchase common stock) was approximately 6.4 million. Of the 14.2 million options outstanding at December 31, 2006, 12.3 million options were exercisable with a weighted average exercise price of \$19.53, and 1.9 million options were not exercisable with a weighted average exercise price of \$25.39.

**Note L Net Income Per Share**

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

|                             | Years Ended December 31, |            |            |
|-----------------------------|--------------------------|------------|------------|
|                             | 2006                     | 2005       | 2004       |
| Net Income                  | \$ 283,178               | \$ 237,870 | \$ 140,604 |
| Basic:                      |                          |            |            |
| Weighted average shares     | 166,003                  | 167,664    | 169,742    |
| Diluted:                    |                          |            |            |
| Weighted average shares     | 166,003                  | 167,664    | 169,742    |
| Potentially dilutive shares | 5,709                    | 6,718      | 7,124      |
| Diluted shares              | 171,712                  | 174,382    | 176,866    |
| Net Income Per Share:       |                          |            |            |
| Basic                       | \$ 1.71                  | \$ 1.42    | \$ .83     |
| Diluted                     | \$ 1.65                  | \$ 1.36    | \$ .79     |

The weighted average diluted common shares outstanding for the years ended December 31, 2006, 2005 and 2004 excludes the dilutive effect of approximately 0.2 million, 0.1 million and 0.9 million options, restricted stock and stock units, respectively. Employee stock options will have a dilutive effect under the treasury method only when the respective period's average market value of the Company's common stock exceeds the exercise proceeds. Under the treasury method, exercise proceeds include the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in capital surplus, if the options were exercised and the restricted stock and stock units had vested. The computation of potentially dilutive shares also included unvested restricted stock and stock units.

**Note M Business Segments**

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





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note M Business Segments (Continued)

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

|   | Years Ended December 31, |              |              |
|---|--------------------------|--------------|--------------|
|   | 2006                     | 2005         | 2004         |
| Net service revenues                        |                          |              |              |
| Temporary and consultant staffing           | \$ 3,133,886             | \$ 2,640,211 | \$ 2,187,468 |
| Permanent placement staffing                | 336,250                  | 219,234      | 135,882      |
| Risk consulting and internal audit services | 543,410                  | 478,994      | 352,346      |
|   | \$ 4,013,546             | \$ 3,338,439 | \$ 2,675,696 |
| Operating income                            |                          |              |              |
| Temporary and consultant staffing           | \$ 314,754               | \$ 250,161   | \$ 151,855   |
| Permanent placement staffing                | 74,757                   | 44,602       | 16,919       |
| Risk consulting and internal audit services | 60,790                   | 86,798       | 63,146       |
|   | 450,301                  | 381,561      | 231,920      |
| Amortization of intangible assets           | 851                      | 335          | 1,025        |
| Interest income, net                        | (16,752)                 | (10,948)     | (3,770)      |
| Income before income taxes                  | \$ 466,202               | \$ 392,174   | \$ 234,665   |

The Company does not report total assets by segment. The following table represents identifiable assets by business segment (in thousands):

|   | December 31, |            |
|---|--------------|------------|
|   | 2006         | 2005       |
| Accounts receivable                         |              |            |
| Temporary and consultant staffing           | \$ 388,939   | \$ 332,557 |
| Permanent placement staffing                | 56,772       | 35,978     |
| Risk consulting and internal audit services | 108,608      | 103,491    |
|   | \$ 554,319   | \$ 472,026 |

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

|                      | Years Ended December 31, |              |              |
|----------------------|--------------------------|--------------|--------------|
|                      | 2006                     | 2005         | 2004         |
| Net service revenues |                          |              |              |
| Domestic             | \$ 3,169,509             | \$ 2,702,387 | \$ 2,186,811 |
| Foreign              | 844,037                  | 636,052      | 488,885      |
|                      | \$ 4,013,546             | \$ 3,338,439 | \$ 2,675,696 |

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|                    | 2006       | December 31,<br>2005 | 2004      |
|--------------------|------------|----------------------|-----------|
| Assets, long-lived |            |                      |           |
| Domestic           | \$ 107,661 | \$ 96,339            | \$ 85,639 |
| Foreign            | 24,420     | 14,176               | 10,144    |
|                    | \$ 132,081 | \$ 110,515           | \$ 95,783 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note N Quarterly Financial Data (Unaudited)

The following tabulation shows certain quarterly financial data for 2006 and 2005 (in thousands, except per share amounts):

|                              | Quarter    |            |              |              | Year Ended   |
|------------------------------|------------|------------|--------------|--------------|--------------|
|                              | 1          | 2          | 3            | 4            | December 31, |
| <b>2006</b>                  |            |            |              |              |              |
| Net service revenues         | \$ 943,924 | \$ 981,825 | \$ 1,027,563 | \$ 1,060,234 | \$ 4,013,546 |
| Gross margin                 | \$ 393,204 | \$ 418,002 | \$ 431,997   | \$ 451,050   | \$ 1,694,253 |
| Income before income taxes   | \$ 109,073 | \$ 113,730 | \$ 119,908   | \$ 123,491   | \$ 466,202   |
| Net income                   | \$ 65,503  | \$ 68,655  | \$ 73,647    | \$ 75,373    | \$ 283,178   |
| Basic net income per share   | \$ .39     | \$ .41     | \$ .45       | \$ .46       | \$ 1.71      |
| Diluted net income per share | \$ .38     | \$ .39     | \$ .43       | \$ .45       | \$ 1.65      |

|                              | Quarter    |            |            |            | Year Ended   |
|------------------------------|------------|------------|------------|------------|--------------|
|                              | 1          | 2          | 3          | 4          | December 31, |
| <b>2005</b>                  |            |            |            |            |              |
| Net service revenues         | \$ 769,948 | \$ 816,711 | \$ 867,015 | \$ 884,765 | \$ 3,338,439 |
| Gross margin                 | \$ 313,834 | \$ 336,281 | \$ 356,010 | \$ 366,924 | \$ 1,373,049 |
| Income before income taxes   | \$ 85,277  | \$ 94,283  | \$ 105,641 | \$ 106,973 | \$ 392,174   |
| Net income                   | \$ 51,593  | \$ 57,229  | \$ 64,439  | \$ 64,609  | \$ 237,870   |
| Basic net income per share   | \$ .30     | \$ .34     | \$ .39     | \$ .39     | \$ 1.42      |
| Diluted net income per share | \$ .29     | \$ .33     | \$ .37     | \$ .37     | \$ 1.36      |

## Note O Subsequent Event

On February 13, 2007, the Company announced a quarterly dividend of \$.10 per share to be paid to all shareholders of record on February 26, 2007. The dividend will be paid on March 15, 2007.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

of Robert Half International Inc.:

We have completed integrated audits of Robert Half International Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements and financial statement schedule**

In our opinion, the consolidated financial statements listed in the index appearing under Item 15, present fairly, in all material respects, the financial position of Robert Half International Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP

San Francisco, California

February 22, 2007

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

None.

**Item 9A. Controls and Procedures**

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

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

*Management's Report on Internal Control over Financial Reporting.* Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 using criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of December 31, 2006.

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

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Item 9B. Other Information**

None.

### PART III

Except as provided below in this Part III, the information required by Items 10 through 14 of Part III is incorporated by reference from Item 1 of this Report and from the registrant's Proxy Statement, under the captions *Nomination and Election of Directors*, *Beneficial Stock Ownership*, *Compensation Discussion and Analysis*, *Compensation Tables*, *Corporate Governance*, *The Board and Committees* and *Independent Public Accountants* which Proxy Statement will be mailed to stockholders in connection with the registrant's annual meeting of stockholders which is scheduled to be held in May 2007.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

##### *Equity Compensation Plan Information*

| Plan Category   | Number of securities<br>to be issued upon<br>exercise of<br>outstanding options,<br>warrants and rights | Weighted average<br>exercise price of<br>outstanding options,<br>warrants and<br>rights | Number of securities<br>remaining available for<br>future issuance under<br>equity compensation plans<br>(excluding securities<br>reflected in column A) |
|---|---|---|--|
| Plan Category   | A   | B   | C  |
| Equity compensation plans approved by security holders        | 7,317,535   | \$ 19.89  | 6,365,829  |
| Equity compensation plans not approved by security holders(a) | 6,875,129   | \$ 20.72  |  |
| <b>Total</b>  | <b>14,192,664</b>   | <b>\$ 20.29</b>   | <b>6,365,829</b>   |

(a) These plans, by their terms, expressly prohibited any grants to directors or executive officers. All such plans were terminated in May 2005, and no future grants may be made under such plans. The information in the table reflects shares issuable upon the exercise of options granted before such plans were terminated.

All future grants will be made pursuant to the Stock Incentive Plan, which was approved by stockholders in May 2005. Such plan authorizes the issuance of stock options, restricted stock, stock units and stock appreciation rights to directors, executive officers and employees.

##### *Description of Equity Plans Not Approved by Stockholders*

All of the following plans were terminated in May 2005. No future grants may be made under any of these plans.

*StockPlus Plan.* The StockPlus Plan authorized the grant of stock options to employees other than directors and executive officers. No option could have a term of more than ten years.

*Stock Option Plan for Field Employees.* The Stock Option Plan for Field Employees authorized the grant of stock options to employees or consultants other than directors and executive officers. No option could have a term of more than ten years.

*Restricted Stock Plan for Field Employees.* The Restricted Stock Plan for Field Employees authorized the grant of shares of restricted stock to employees or consultants other than directors and executive officers. Recipients of awards did not pay for the stock, but the grants are subject to time-based vesting conditions.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a) 1. Financial Statements**

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

Consolidated statements of financial position at December 31, 2006 and 2005.

Consolidated statements of operations for the years ended December 31, 2006, 2005, and 2004.

Consolidated statements of stockholders' equity for the years ended December 31, 2006, 2005, and 2004.

Consolidated statements of cash flows for the years ended December 31, 2006, 2005, and 2004.

Notes to consolidated financial statements.

Report of independent registered public accounting firm.

Selected quarterly financial data for the years ended December 31, 2006 and 2005 are set forth in Note N Quarterly Financial Data (Unaudited) included in Item 8 of this report.

**2. Financial Statement Schedules**

Schedule II Valuation and Qualifying Accounts

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

**3. Exhibits**

**Exhibit**

| No.   | Exhibit  |
|-------|--|
| 3.1   | Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended 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.  |
| 4.1   | Restated Certificate of Incorporation of Registrant (filed as Exhibit 3.1).  |
| *10.1 | Form of Power of Attorney and Indemnification Agreement, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002.  |
| *10.2 | Employment Agreement between the Registrant and Harold M. Messmer, Jr., incorporated by reference to (i) Exhibit 10.(c) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1985, (ii) Exhibit 10.2(b) to Registrant's Registration Statement on Form S-1 (No. 33-15171), (iii) Exhibit 10.2(c) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987, (iv) Exhibit 10.2(d) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, (v) Exhibit 28.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1990, (vi) Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, (vii) Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1993, (viii) Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, (ix) Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal |



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quarter ended March 31, 1995, (x) Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, (xi) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, (xii) Exhibit 10.2 to

**Exhibit**

| No.    | Exhibit  |
|--------|--|
|        | the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, (xiii) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, (xiv) Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and (xv) Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004. |
| *10.3  | Amended and Restated Retirement Agreement between Registrant and Harold M. Messmer Jr., incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated December 7, 2006.   |
| *10.4  | Excise Tax Restoration Agreement dated November 5, 1996, incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.   |
| *10.5  | Outside Directors' Option Plan, as amended, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.  |
| *10.6  | Equity Incentive Plan, as amended, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.  |
| *10.7  | Amended and Restated Deferred Compensation Plan, incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated December 7, 2006.  |
| *10.8  | Severance Agreement dated as of August 2, 2000, between Registrant and Paul F. Gentzkow, incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.  |
| *10.9  | Agreement dated as of July 31, 1995, between Registrant and Paul F. Gentzkow, incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.   |
| *10.10 | Severance Agreement dated as of October 1, 1991, between Registrant and Paul F. Gentzkow, incorporated by reference to Exhibit 10.7 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.   |
| *10.11 | Form of Amended and Restated Severance Agreement, incorporated by reference to Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.   |
| *10.12 | Form of Change in Control Severance Agreement, incorporated by reference to Exhibit 10.14 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.  |
| *10.13 | Form of Indemnification Agreement for Directors of the Registrant, incorporated by reference to (i) Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 and (ii) Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.  |
| *10.14 | Form of Indemnification Agreement for Executive Officers of Registrant, incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.   |
| *10.15 | Senior Executive Retirement Plan, as amended, incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal quarter ended June 30, 2003.   |
| *10.16 | Collateral Assignment of Split Dollar Insurance Agreement, incorporated by reference to (i) Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000, and (ii) Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.   |

**Exhibit**

| No.    | Exhibit   |
|--------|---|
| *10.17 | Form of Part-Time Employment Agreement, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001.                                |
| *10.18 | StockPlus Plan, incorporated by reference to Exhibit 10.20 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.  |
| *10.19 | Restricted Stock Plan for Field Employees, incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.                                   |
| *10.20 | Stock Option Plan for Field Employees, incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.                                       |
| *10.21 | Equity Incentive Plan Form of Restricted Stock Agreement, incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 21, 2004.  |
| *10.22 | Equity Incentive Plan Form of Stock Option Agreement, incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated October 21, 2004.  |
| *10.23 | Outside Directors Option Plan Form of Stock Option Agreement, incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated October 21, 2004.                                      |
| *10.24 | Summary of Outside Director Cash Remuneration, incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.                               |
| *10.25 | Stock Incentive Plan, incorporated by reference to Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.  |
| *10.26 | Annual Performance Bonus Plan, incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K dated May 3, 2005.  |
| *10.27 | Stock Incentive Plan Form of Restricted Share Agreement for Executive Officers, incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K dated May 3, 2005.                             |
| *10.28 | Stock Incentive Plan Form of Stock Option Agreement for Executive Officers, incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K dated May 3, 2005.                                 |
| *10.29 | Stock Incentive Plan Form of Restricted Share Agreement for Outside Directors, incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006. |
| *10.30 | Stock Incentive Plan Form of Stock Option Agreement for Outside Directors, incorporated by reference to Exhibit 99.6 to Registrant's Current Report on Form 8-K dated May 3, 2005.                                  |
| 21.1   | Subsidiaries of the Registrant.   |
| 23.1   | Accountant's Consent.   |
| 31.1   | Rule 13a-14(a) Certification of Chief Executive Officer.  |
| 31.2   | Rule 13a-14(a) Certification of Chief Financial Officer.  |
| 32.1   | Rule 1350 Certification of Chief Executive Officer.   |
| 32.2   | Rule 1350 Certification of Chief Financial Officer.   |

\* Management contract or compensatory plan.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROBERT HALF INTERNATIONAL INC.

(Registrant)

Date: February 22, 2007

By: /s/ M. KEITH WADDELL  
M. Keith Waddell

Vice Chairman, President and  
Chief Financial Officer

(Principal Financial Officer)

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

Date: February 22, 2007

By: /s/ HAROLD M. MESSMER, JR.  
Harold M. Messmer, Jr.

Chairman of the Board,  
Chief Executive Officer,  
and a Director

(Principal Executive Officer)

Date: February 22, 2007

By: /s/ ANDREW S. BERWICK, JR.  
Andrew S. Berwick, Jr., Director

Date: February 22, 2007

By: /s/ FREDERICK P. FURTH  
Frederick P. Furth, Director

Date: February 22, 2007

By: /s/ EDWARD W. GIBBONS  
Edward W. Gibbons, Director

Date: February 22, 2007

By: /s/ THOMAS J. RYAN  
Thomas J. Ryan, Director

Date: February 22, 2007

By: /s/ J. STEPHEN SCHAUB  
J. Stephen Schaub, Director

Date: February 22, 2007

By: /s/ M. KEITH WADDELL  
M. Keith Waddell

Vice Chairman, President,

Chief Financial Officer and a Director

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(Principal Financial Officer)

Date: February 22, 2007

By:

/s/ MICHAEL C. BUCKLEY  
Michael C. Buckley

Executive Vice President and Treasurer

(Principal Accounting Officer)

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**Schedule II Valuation and Qualifying Accounts**

(in thousands)

|  | <b>Balance at<br/>Beginning of<br/>Period</b> | <b>Charged to<br/>Expenses</b> | <b>Deductions</b> | <b>Translation<br/>Adjustments</b> | <b>Balance at<br/>End of Period</b> |
|--|---|--------------------------------|-------------------|------------------------------------|-------------------------------------|
| <b>Year Ended December 31, 2004</b>        |   |                                |                   |                                    |                                     |
| Allowance for doubtful accounts receivable | \$ 13,608                                     | 9,721                          | (6,506)           | 471                                | \$ 17,294                           |
| Deferred tax valuation allowance           | \$ 4,146                                      | 5,977                          | (2,969)           |                                    | \$ 7,154                            |
| <b>Year Ended December 31, 2005</b>        |   |                                |                   |                                    |                                     |
| Allowance for doubtful accounts receivable | \$ 17,294                                     | 10,097                         | (5,584)           | (1,041)                            | \$ 20,766                           |
| Deferred tax valuation allowance           | \$ 7,154                                      | 6,126                          | (1,375)           | (770)                              | \$ 11,135                           |
| <b>Year Ended December 31, 2006</b>        |   |                                |                   |                                    |                                     |
| Allowance for doubtful accounts receivable | \$ 20,766                                     | 7,585                          | (4,329)           | (1,527)                            | \$ 22,495                           |
| Deferred tax valuation allowance           | \$ 11,135                                     | 1,802                          | (2,606)           | 1,206                              | \$ 11,537                           |

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