HALF ROBERT INTERNATIONAL INC /DE/
Form DEF 14A
April 23, 2013

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12

Robert Half International Inc.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

ROBERT HALF INTERNATIONAL INC.

2884 Sand Hill Road

Menlo Park, California 94025

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held

Thursday, May 23, 2013

9:00 A.M.

To the Stockholders:

The annual meeting of stockholders of ROBERT HALF INTERNATIONAL INC. (the Company) will be held at 9:00 a.m. on Thursday, May 23, 2013 at The Westin Hotel San Francisco Airport, 1 Old Bayshore Highway, Millbrae, California, 94030. The meeting will be held for the following purposes:

1. To elect six directors.

2. To ratify the appointment of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as auditors for 2013.

3. To approve the amended and restated Annual Performance Bonus Plan.

4. To approve the amended and restated Stock Incentive Plan.

5. To cast an advisory vote to approve executive compensation.

6. To transact such other business as may properly come before the meeting or any adjournment of the meeting.

Only stockholders of record at the close of business on April 5, 2013 are entitled to notice of, and to vote at, the meeting and any adjournment of the meeting.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 23, 2013

Pursuant to rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement and our 2012 Annual Report to Stockholders are available at *http://www.rhi.com/14aFilings* and *http://www.rhi.com/AnnualReport*, respectively.

BY ORDER OF THE BOARD OF DIRECTORS

STEVEN KAREL
Secretary

Menlo Park, California

April 23, 2013

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED FORM AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POST-PAID ENVELOPE. ALTERNATIVELY, YOU MAY, IF YOU WISH, VOTE VIA THE INTERNET OR VIA TOLL-FREE TELEPHONE CALL FROM A TOUCH-TONE TELEPHONE IN THE U.S. BY FOLLOWING THE DIRECTIONS ON THE ENCLOSED FORM. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON.

THANK YOU FOR ACTING PROMPTLY.

ROBERT HALF INTERNATIONAL INC.

PROXY STATEMENT

INTRODUCTION

The enclosed proxy is solicited on behalf of the present Board of Directors (sometimes referred to as the Board) of Robert Half International Inc., a Delaware corporation (the Company), the principal executive offices of which are located at 2884 Sand Hill Road, Menlo Park, California 94025. The approximate date on which this proxy statement and the enclosed proxy are being mailed to the Company s stockholders is April 23, 2013. The proxy is solicited for use at the annual meeting of stockholders (the Meeting) to be held at 9:00 a.m. on Thursday, May 23, 2013, at The Westin Hotel San Francisco Airport, 1 Old Bayshore Highway, Millbrae, California, 94030. Only stockholders of record on April 5, 2013 will be entitled to notice of, and to vote at, the Meeting and any adjournment of the Meeting. Each share is entitled to one vote. At the close of business on April 5, 2013, the Company had outstanding and entitled to vote 139,529,084 shares of its common stock, $.001 par value (Common Stock).

A stockholder giving a proxy in the form accompanying this proxy statement has the power to revoke the proxy prior to its exercise. A proxy can be revoked by an instrument of revocation delivered prior to the Meeting to the Secretary of the Company, by a duly executed proxy bearing a date later than the date of the proxy being revoked, or at the Meeting if the stockholder is present and elects to vote in person. The Company has retained the services of Georgeson Shareholder Communications, Inc. to solicit the proxies of certain stockholders for the annual meeting. The cost of such services is estimated to be $10,000 plus reimbursement of out-of-pocket expenses. In addition, solicitation of proxies may be made by directors, officers or employees of the Company (who will receive no extra compensation for their services) by telephone, by fax or in person as well as by mail. Costs of solicitation will be borne by the Company.

An automated system administered by the Company s transfer agent will tabulate votes cast at the Meeting. Abstentions and broker non-votes are each included in the determination of the number of shares present and voting, and each is tabulated separately. Abstentions are counted in tabulations of the votes cast on proposals presented to stockholders or with respect to election of directors, whereas broker non-votes are not counted for purposes of determining whether a proposal has been approved or a nominee has been elected.

NOMINATION AND ELECTION OF DIRECTORS

There are six nominees for director. All of the nominees are presently directors of the Company. The present term of office of all directors will expire upon election of directors at the Meeting. The full Board of Directors will be elected at the Meeting to hold office until the next annual meeting and until their successors are elected.

Proxies cannot be voted for more than six persons. Directors are elected by a majority of the votes of the shares present in person or represented by proxy and entitled to vote at the Meeting. Proxies solicited by the Board will be voted FOR the election of the nominees named below unless stockholders specify in their proxies to the contrary. Although the Board does not expect any nominee to become unavailable to serve as a director for any reason, should that occur before the Meeting, proxies will be voted for the balance of those named and such substitute nominee as may be selected by the Board.

Directors

The following table lists the name of each nominee for election as director, the age on the date of the Meeting and the year current service as a director began.

Name	Age	Director Since
Andrew S. Berwick, Jr.	79	1981
Harold M. Messmer, Jr.	67	1982
Barbara J. Novogradac	52	2009
Robert J. Pace	50	2009
Frederick A. Richman	67	2008
M. Keith Waddell	56	1999

Biographical Information

Mr. Berwick has been President of Berwick-Pacific Corporation, a real estate development company, for more than the past five years. He is Chairman Emeritus of California Healthcare System.

Mr. Messmer has been Chairman of the Board since 1988 and Chief Executive Officer since 1987. From 1985 through 2004 he served as President.

Ms. Novogradac has been president of Novogradac Investment Company, a private real estate investment company that invests in residential rental properties, land development opportunities and light industrial commercial assets, since 2001. From 1990 to 2001, Ms. Novogradac held various positions with the Company, including Senior Vice President and Controller.

Mr. Pace is a retired partner and managing director of Goldman, Sachs & Co. He was with Goldman Sachs for over twenty years and held numerous senior leadership positions with that firm.

Mr. Richman has been a Consultant to Deloitte Tax, LLP since 2008. From 2001 to 2008, he was a Principal with Deloitte Tax, LLP. Prior to 2001 he was a senior partner with O Melveny & Myers LLP, a law firm. Mr. Richman also served as a director of the Company from 1994 through 2001.

Mr. Waddell has been Vice Chairman of the Board since 1999, President since 2004 and Chief Financial Officer since 1988. He served as Treasurer from 1987 until 2004.

Other Public Company Directorships

From January 1, 2008 through the present, the following directors have held directorships with other public companies:

Mr. Messmer served as a director of HCP, Inc., and a member of its Compensation Committee and its Nominating and Corporate Governance Committee, from 1985 through April 2011. HCP, Inc. is a real estate investment trust that focuses on the health care industry.

Qualification to Serve As Director

The Nomination and Governance Committee has determined that each of the nominees is qualified to continue to serve as a director of the Company. The reasons for these determinations are as follows:

Mr. Berwick has substantial private investment and entrepreneurial experience. He has served as a director of the Company since 1981, during which time the Company has experienced substantial growth.

Mr. Messmer has been Chairman since 1988 and Chief Executive Officer since 1987, during which time he has directed and presided over the Company s substantial growth. More details regarding Mr. Messmer and the Company s growth during his tenure is contained below in the section titled Board of Directors Leadership Structure. He has been a director since 1982.

Ms. Novogradac has financial expertise derived from her experience as president of a real estate investment company, with a major public accounting firm and as controller of the Company.

Mr. Pace has substantial investment banking experience as a former senior member of Goldman, Sachs & Co., including service on its Investment Banking Division s global Operating Committee.

Mr. Richman has financial expertise as a senior tax expert with both O Melveny & Myers LLP, a law firm, and Deloitte Tax, LLP. He served as a director of the Company from 1994 through 2001 and from 2008 through the present.

Mr. Waddell has more than 25 years of service as Chief Financial Officer, during which time the Company experienced substantial growth, and has been a director since 1999.

Executive Officers

The following table lists the name of each current executive officer of the Company, his age on the date of the Meeting, and his current positions and offices with the Company:

Name	Age	Office
Harold M. Messmer, Jr.	67	Chairman of the Board and Chief Executive Officer
M. Keith Waddell	56	Vice Chairman of the Board, President and Chief Financial Officer
Paul F. Gentzkow	57	President and Chief Operating Officer-Staffing Services
Robert W. Glass	54	Executive Vice President, Corporate Development
Michael C. Buckley	47	Executive Vice President, Chief Administrative Officer and Treasurer
Steven Karel	63	Executive Vice President, Secretary and General Counsel

Mr. Gentzkow has been President and Chief Operating Officer-Staffing Services since 2004. From 2000 until 2004, he served as Executive Vice President, Operations. For more than five years prior to his election as an executive officer, he served as Director of Field Operations.

Mr. Glass has been Executive Vice President, Corporate Development since 2004. From 1993 until 2004, he served as Senior Vice President, Corporate Development. From 1987 until 1993 he served as Vice President.

Mr. Buckley has been Treasurer since 2004 and Executive Vice President and Chief Administrative Officer since 2007. He was Vice President from 2001 through 2007 and served as Controller, Corporate Accounting from 1999 until 2004. From 1995 through 1999, he held various other positions with the Company.

Mr. Karel has been General Counsel of the Company since 1989, Secretary since 1993 and Executive Vice President since 2009. He served as Senior Vice President from 2007 through 2009 and Vice President from 1989 through 2007.

The executive officers of the Company are also officers of the Company s wholly owned subsidiaries.

All of the executive officers serve at the pleasure of the Board of Directors. Mr. Messmer has an employment agreement with the Company to serve as Chairman and Chief Executive Officer. In addition, severance agreements have been entered into with certain executive officers. See the discussion under Employment Agreement and Potential Payments upon Termination or Change in Control below.

There are no family relationships between any of the directors or executive officers.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this proxy statement, the Company has disclosed information that may be forward-looking in nature, including the earnings per share, revenue and net income goals for 2013 discussed in the Compensation Discussion and Analysis section of this proxy statement. The goals for 2013 are targets set by the Compensation Committee for compensation purposes only. They are not a guarantee of future performance or intended to be the Company s projections or guidance for 2013. To the extent they may be deemed forward looking statements , they are subject to risks and uncertainties associated with our business. For information regarding risks and uncertainties associated with our business and a discussion of some of the factors that may cause actual results to differ materially from these goals used for performance-based compensation, please refer to our SEC filings, including the Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and Legal Proceedings sections of our 2012 Annual Report on Form 10-K. The Company undertakes no obligation to update information in this proxy statement.

BENEFICIAL STOCK OWNERSHIP

The following table sets forth information as of March 31, 2013, concerning beneficial ownership of Common Stock by (i) the only persons known to the Company to be beneficial owners of 5% or more of the outstanding Common Stock, (ii) each director or nominee for director, (iii) each executive officer, and (iv) all executive officers and directors as a group. Included in share ownership are shares that may be acquired upon the exercise of options that are currently exercisable or become exercisable on or before May 31, 2013 (Exercisable Options). All persons have sole voting and investment power except as otherwise indicated.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Common Stock
Lateef Investment Management, L.P. 300 Drakes Landing Road Greenbrae, CA 94904	8,393,609(a)	6.0%
The Vanguard Group, Inc. P.O. Box 2600 Valley Forge, PA 19482	8,257,487(b)	5.9%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	7,449,616(c)	5.3%
Andrew S. Berwick, Jr.	554,736(d)	0.4%
Harold M. Messmer, Jr.	1,626,152(e)	1.2%
Barbara J. Novogradac	110,272(f)	0.1%
Robert J. Pace	51,350(g)	0.0%
Frederick A. Richman	38,850(h)	0.0%
M. Keith Waddell	1,736,873(i)	1.2%
Paul F. Gentzkow	937,325(j)	0.7%
Robert W. Glass	445,478(k)	0.3%
Michael C. Buckley	161,161(l)	0.1%
Steven Karel	388,424(m)	0.3%
All executive officers and directors as a group (10 persons)	6,050,621	4.3%

(a) Information is as of December 31, 2012, the latest date for which information is available to the Company. According to a Schedule 13G filed by Lateef Investment Management, L.P., which identified itself as an investment adviser, shared voting and dispositive power is held with respect to all of such shares.

(b) Information is as of December 31, 2012, the latest date for which information is available to the Company. According to a Schedule 13G filed by The Vanguard Group, Inc., which identified itself as an investment adviser, sole voting power is held with respect to 244,954 shares, shared dispositive power is held with respect to 230,452 shares and sole dispositive power is held with respect to 8,027,035 shares.

(c) Information is as of December 31, 2012, the latest date for which information is available to the Company. According to a Schedule 13G filed by BlackRock, Inc., which identified itself as a parent holding company, sole dispositive power and voting power is held with respect to all of such shares.

(d) Includes 24,000 shares that may be acquired upon the exercise of Exercisable Options, 15,500 shares acquired pursuant to Company benefit plans, as to which shares Mr. Berwick has sole voting power but as to which disposition is restricted pursuant to the terms of such plans and 87,866 shares held in various trusts as to which Mr. Berwick has voting and dispositive power.

(e) Includes 100,000 shares that may be acquired upon the exercise of Exercisable Options, 357,754 shares acquired pursuant to Company benefit plans, as to which shares Mr. Messmer has sole voting power but as to which disposition is restricted pursuant to the terms of such plans, an aggregate of 45,167 shares as to which Mr. Messmer has voting and dispositive power but disclaims pecuniary interest and 1,115,623 shares as to which Mr. Messmer shares voting and dispositive power with his wife.

(f) Includes 16,600 shares held by Novogradac Rivers Foundation, as to which shares Ms. Novogradac shares voting and dispositive power but in which she has no pecuniary interest, and 15,500 shares acquired pursuant to Company benefit plans, as to which shares Ms. Novogradac has sole voting power but as to which disposition is restricted pursuant to the terms of such plans.

(g) Includes 15,500 shares acquired pursuant to Company benefit plans, as to which shares Mr. Pace has sole voting power but as to which disposition is restricted pursuant to the terms of such plans.

(h) Includes 15,500 shares acquired pursuant to Company benefit plans, as to which shares Mr. Richman has sole voting power but as to which disposition is restricted pursuant to the terms of such plans.

(i) Includes 100,000 shares that may be acquired upon the exercise of Exercisable Options, 284,888 shares acquired pursuant to Company benefit plans, as to which shares Mr. Waddell has sole voting power but as to which disposition is restricted pursuant to the terms of such plans and 1,351,985 shares as to which Mr. Waddell shares voting and dispositive power with his wife.

(j) Includes 85,000 shares that may be acquired upon the exercise of Exercisable Options, 229,765 shares that were acquired pursuant to Company benefit plans, as to which shares Mr. Gentzkow has sole voting power but as to which disposition is restricted pursuant to the terms of such plans, 1,250 shares held by Mr. Gentzkow s son and 621,310 shares as to which Mr. Gentzkow shares voting and dispositive power with his wife.

(k) Includes 40,110 shares that may be acquired upon the exercise of Exercisable Options, 61,963 shares acquired pursuant to Company benefit plans, as to which shares Mr. Glass has sole voting power but as to which disposition is restricted pursuant to the terms of such plans, 336,925 shares as to which Mr. Glass shares voting and dispositive power with his wife and 3,000 shares held by Mr. Glass s children.

(l) Includes 40,000 shares that may be acquired upon the exercise of Exercisable Options, 65,731 shares acquired pursuant to Company benefit plans, as to which shares Mr. Buckley has sole voting power but as to which shares disposition is restricted pursuant to the terms of such plans and 55,430 shares as to which Mr. Buckley shares voting and dispositive power with his wife.

(m) Includes 18,000 shares that may be acquired upon the exercise of Exercisable Options, 60,321 shares acquired pursuant to Company benefit plans, as to which shares Mr. Karel has sole voting power but as to which disposition is restricted pursuant to the terms of such plans and 310,103 shares as to which Mr. Karel shares voting and dispositive power with his wife.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The following discussion provides information about the Company s compensation policies and decisions regarding the Company s CEO, CFO and the three most highly compensated executive officers (other than the CEO and the CFO) who were serving as executive officers at the end of 2012. These named executive officers are Harold M. Messmer, Jr., Chairman and CEO; M. Keith Waddell, Vice Chairman and CFO; Paul F. Gentzkow, President and Chief Operating Officer, Staffing Services; Robert W. Glass, Executive Vice President, Corporate Development; and Michael Buckley, Executive Vice President, Chief Administrative Officer and Treasurer.

In this Compensation Discussion and Analysis (CD&A), we first provide an *Executive Summary* with highlights of the full CD&A. Next, we cover *Compensation Governance and Say-on-Pay*. We then discuss the Company s *2012 Financial Results and Pay Decisions* followed by the *Compensation Philosophy* and *Compensation Process* of the Company s compensation committee (the Compensation Committee) used to decide how to compensate executives. We then provide a brief overview of *Other Benefits* available to executives. Finally, we include a summary of the Compensation Committee s *2013 Pay Decisions*.

Executive Summary

In 2012, the Company s financial performance was significantly above 2011 and also above 2012 target levels. Against this background of strong performance, the Company implemented a number of changes to its executive compensation program and made decisions with respect to the compensation of executive officers to strengthen alignment with evolving governance best practices as detailed below.

1. The Company did not change base salaries for its executive officers in 2012. In fact, base salaries for the CEO and CFO have not changed during the last 15 years.

2. Given the total levels of pay for the CEO and the other executive officers, the Company set 2012 target compensation levels at approximately the same amounts as 2011 actual compensation levels notwithstanding a 29% increase in 2012 target earnings per share (EPS) as compared to 2011 actual EPS.

3. The Compensation Committee used its discretion to limit 2012 actual bonus payouts to target levels even though actual results exceeded target by 12%.

4. The Company added a multi-year relative total shareholder return performance modifier to its 2011 and 2012 equity grants that could result in the forfeiture of up to 50% of the target shares if relative total shareholder return over the multi-year period does not reach target levels. This helps to insure a relationship between executive compensation and total shareholder return. This is in addition to the performance condition based on annual EPS.

5. Executive officers agreed to waive single-trigger change in control equity acceleration and excise tax gross-ups.

In line with the Compensation Committee s pay for performance philosophy, the compensation of the CEO, when expressed as a percentage of the Company s total market capitalization, was 0.25% as compared with a median of 0.75% for the staffing industry, as illustrated below.

* 2012 Staffing Firm Executive Compensation Analysis published by Staffing Industry Analysts on 9/25/2012 for executives at 28 publicly held staffing firms. (Compensation data for 2011 was used as it was the latest data available.)

Compensation Governance and Say-on-Pay

During 2012, the Company implemented a number of changes to its executive compensation program and made decisions with respect to the compensation of executive officers to strengthen alignment with evolving governance best practices. First, it determined that future long-term equity incentive awards to executive officers would be subject to a multi-year performance condition different from, and in addition to, the current performance conditions used for the Company s incentive awards. Second, the Compensation Committee modified the Annual Performance Bonus Plan to provide the Compensation Committee with the sole discretion to reduce the bonus by up to the greater of 30% of the target bonus or 30% of the bonus calculated under the plan. Third, the Compensation Committee, with the consent of the executive officers, added a performance condition to the restricted stock grants previously made to executive officers in 2011 and 2012 that provided for possible forfeiture of a portion of each of such grants based on total shareholder return for the period from May 6, 2012, through December 31, 2014. Finally, in the event of a change in control, the executive officers agreed to waive their right to have existing restricted stock awards vest immediately and to receive any reimbursement from the Company of any excise tax that might be imposed.

At the May 2012 Annual Meeting of Stockholders, the Company s 2011 compensation was approved by 83% of the shares present and entitled to vote.

The Company s compensation program has the following additional features for further alignment with best practices:

- No pledging or hedging of Company stock;
- Caps on maximum awards with appropriate balance between long-term and short-term objectives;
- A clawback policy; and
- Requirements that directors and executive officers own specified amounts of the Company s stock.

The Compensation Committee and its independent advisor believe that these protections properly control compensation risk.

2012 Financial Results and Pay Decisions

In the view of the Compensation Committee, management achieved excellent results in 2012, as noted below:

1. The Company s EPS for 2012 was 44% higher than the EPS for the prior year. This exceeded the target EPS increase of 29% previously set by the Compensation Committee for incentive purposes by 12%.

2. The fourth quarter of 2012 marked the eleventh consecutive quarter in which net income and EPS have grown 20% or more on a year-over-year basis.

3. The Company had operating cash flow of $289 million in 2012, which helped to fund approximately $133 million in stock repurchases on the open market, $50 million in capital expenditures, $14 million for acquisitions and the payment of $84 million in dividends to stockholders. The cash dividend has been raised every year since it was initiated in 2004.

4. The Company has returned $1.07 billion to stockholders during the past five years in the form of either dividends or stock repurchases.

5. The Company ended the year with $288 million in cash and cash equivalents and virtually no debt. Longstanding, conservative financial policies have left the Company with the financial resources to expand as the economy allows.

6. In March 2012, the Company was named to FORTUNE® magazine s Most Admired Companies list, ranking first in the temporary help industry.

7. The Company retained all key executives and field personnel during the year, which it believes is critical to its future success.

Compensation for the Company s CEO for 2012 as compared with 2011 was as follows:

Base Salary	No Change
Total Compensation	Flat
Company Increase in EPS Over Prior Year	+44%

The ratio of the CEO s performance-based compensation to total compensation for 2012 was 94%. In other words, only 6% of the CEO s compensation was fixed and the remainder depended on Company performance.

The ratio of the CEO s performance-based stock awards to total stock awards for 2012 was 100%. Therefore, none of the stock awards were absolute and all were dependent on the Company s performance.

As discussed below and in the descriptions that appear under the Grants of Plan-Based Awards table, each 2012 award under the Annual Performance Bonus Plan and the Stock Incentive Plan was subject to reduction or elimination, depending upon EPS for the year. Only the Annual Performance Bonus Plan permitted the earned award to exceed the target award (pursuant to a set straight-line formula in the event actual EPS exceeded target EPS and subject to a cap). The Compensation Committee adopted a target goal (Target EPS) that it believed was realistically possible to achieve but not easily achieved. The realistic nature of the target is borne out by the fact that, with respect to the last ten years, the annual Target EPS set for compensation purposes was achieved only half the time. Whenever the Target EPS was not achieved, the award was subject to reduction, as described below under the Grants of Plan-Based Awards table.

As is its customary practice, in setting the Target EPS for 2012, the Compensation Committee considered the Company s annual strategic plan, consensus Wall Street estimates and other items. For 2012, the Target EPS for purposes of the Stock Incentive Plan and the Annual Performance Bonus Plan was set by the Compensation Committee at $1.34. The actual EPS for the year was $1.50.

2012 Annual Performance Bonus Plan

The Annual Performance Bonus Plan provides that bonuses shall be computed in accordance with a formula specified in the plan. The two factors determined by the Compensation Committee were the Target EPS for the year and each individual s target bonus amount (Target Bonus). As noted above, the Compensation Committee chose $1.34 per share as the Target EPS for 2012. This Target EPS represented a 29% increase as compared to the actual EPS of $1.04 achieved for 2011. The Compensation Committee then determined that a 29% increase in EPS performance should result in a 29% increase in bonus. It therefore increased each individual s Target Bonus for 2012 by 29% as compared to actual bonuses for 2011. Pursuant to the pay for performance formula in the Annual Performance Bonus Plan, any variation in actual EPS from Target EPS results in a corresponding variation in actual bonus from Target Bonus by the same percentage. Because actual EPS for 2012 was $1.50, which was approximately 12% higher than the target EPS for 2012, the terms of the awards under the Annual Performance Bonus Plan provided that each individual receive a bonus for 2012 greater than his Target Bonus by an equal percentage. However, given the total level of pay for the CEO and the other executive officers, the Compensation Committee used its discretion to limit 2012 bonuses to target levels.

2012 Performance Restricted Shares

When making its determination with respect to the 2012 grant of restricted shares to each executive, the Compensation Committee considered such items as the value of the previous year s grant, the number of shares granted the previous year, the price of the Company s stock, the performance of the Company in the prior year, the Target EPS the Compensation Committee set for the year, the levels of other compensation granted to the executive, the total compensation package for the executive and the individual performance of each executive. The Compensation Committee does not assign specific weights to individual items. Rather the Compensation Committee exercises its business judgment based, in large part, on the Compensation Committee s long-term experience in compensating the management team in a manner that incents the team to produce consistently favorable results for stockholders.

The Compensation Committee determined the value of the CEO s 2012 restricted share grant by first deciding what his total direct compensation (base, cash bonus and restricted share grant) should be if the Company achieved its target operating results for 2012. (Such target results were in fact achieved.) The Compensation Committee then considered the other expected amounts of compensation for 2012, including the expected cash bonus under the Annual Performance Bonus Plan, and then calculated the value of the restricted share grant as of the grant date.

Because actual EPS for 2012 exceeded target EPS, pursuant to the formula for the Stock Incentive Plan no shares were forfeited.

Nevertheless, a portion of the restricted share grant to each executive remains subject to forfeiture based on the total shareholder return performance condition for the period from May 6, 2012, through December 31, 2014. The total shareholder return requirement provides for reduction of the award based on how the Company s total shareholder return for the period from May 6, 2012, through December 31, 2014 compares to the total shareholder return for the companies comprising the S&P 500 Index for the same period. If the Company s total shareholder return is at or below the 35th percentile, 50% of the award will be forfeited. If the Company s total shareholder return is at or above the 50th percentile, no shares will be forfeited. If the Company s total shareholder return is between the 35th percentile and the 50th percentile, the number of shares to be forfeited will be determined through straight-line interpolation as set forth in the Grants of Plan-Based Awards table.

Restricted share grants do not receive dividends until all performance conditions and time vesting requirements have been satisfied. Dividends declared prior to the satisfaction of all requirements are accrued but not paid until the shares vest. If a portion of the award is forfeited, the accrued dividends on that portion will also be forfeited.

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The Compensation Committee believes that the 2012 awards under the Stock Incentive Plan and the Annual Performance Bonus Plan, considered in the context of each individual s total compensation opportunity and the conditions applicable to such awards, are at competitive levels necessary for retention of the current executive officers and for incenting them to continue to provide superior results to stockholders. It also believes that the relationship of total compensation among the named executive officers is appropriate for purposes of internal equity in light of their roles and responsibilities.

Compensation Philosophy

The Compensation Committee believes that setting compensation at levels designed to attract and retain key individuals is critical to the success of a personal services business in which there are few tangible assets and in which people represent the true assets of the Company. The Compensation Committee is also mindful of the fact that the Company s industry is fractured with a myriad of private firms owned by entrepreneurial individuals or financed by private equity firms representing the Company s most effective competition in many markets. Successful competitors generate large financial rewards to the owners as the Company knows from its acquisitions of such firms over the years. It is imperative that the Company s compensation program provide significant cash and equity incentives to its key managers so as to compete with both public and private companies for this talent, and the Compensation Committee believes the Company s compensation program achieves this result.

The Compensation Committee further believes that the Company has an outstanding management team that has produced excellent returns since the inception of the Company s current business in 1986. The Company s management has been stable for over two decades: five of the executive officers (Messrs. Messmer, Waddell, Gentzkow, Glass and Karel) have been with the Company since the 1980s. Mr. Messmer negotiated the purchase of Robert Half Incorporated, the predecessor to the Company, in 1986 and has been responsible for recruiting the officers and other managers with whom he has directed the growth of the Company ever since that time. This includes the formation of Protiviti, which, since its formation in 2002, has grown from revenues of $18 million in its first full quarter of operation to approximately $450 million of annual revenues in 2012. The annual revenues of Robert Half Incorporated at the time of its purchase in 1986 were approximately $7 million. In fiscal 2012, the Company s revenues were approximately $4.1 billion.

In the opinion of the Compensation Committee, the Company is fortunate to have a group of outstanding leaders who possess not only considerable management talent but also great entrepreneurial vision, as demonstrated by a series of highly successful new divisions added to the Company s business since 1991, including the aforementioned Protiviti subsidiary. The Compensation Committee s view is that, as a personal services business, it is in the Company s long-term best interest to be known as an organization offering the opportunity to achieve superior remuneration in the industry. The Company believes the vast majority of such remuneration should be contingent on achieving outstanding results and, indeed, makes bonuses subject to achievement of goals the Compensation Committee sets and, further, makes annual grants of equity incentives subject to partial or total forfeiture depending on the achievement of goals set by the Compensation Committee. The Company has not granted options to executive officers since October 2004. The Compensation Committee currently has no plans to make option grants in the future but reserves the right to do so. The Compensation Committee s policy to provide the opportunity for top level compensation and incentives for extraordinary results has been essentially unchanged for many years, and it is believed that the success of this policy is reflected by the superior results that management has achieved for the Company.

As part of its effort to emphasize performance-based compensation, the Compensation Committee has set base salaries at levels it considers modest and which, in the case of Messrs. Messmer and Waddell, have not been increased since 1998. The Compensation Committee instead heavily weights remuneration toward performance-based compensation. An examination of the Summary Compensation Table will show that the vast majority of each executive s compensation consists of performance-based restricted share awards under the stockholder-approved Stock Incentive Plan and performance-based cash payments earned under the stockholder-approved

Annual Performance Bonus Plan. Through 2012, EPS was chosen as the measurement factor with respect to both of these awards because the Compensation Committee believed it is directly linked to stockholder value. If actual diluted EPS for the performance period did not equal or exceed the specified Target EPS that is established by the Compensation Committee, all or a portion of the award could be forfeited, as described below. (Restricted share awards could not be increased, even if actual diluted EPS exceeded the target.) In addition, as described above, 2012 restricted share awards are also subject to forfeiture based on how the Company s total shareholder return compares to the total shareholder return of the companies comprising the S&P 500 Index. Even after the performance period has ended and any downward adjustment in the number of shares has been made, shares are still not released to the executive officers. The time vesting provisions must still be satisfied. Therefore, the actual value of what the executive officer ultimately receives is determined by how the Company s stock price varies between the grant date and the vesting date. The emphasis on performance-based restricted share awards further ties management compensation to the long-term interests of stockholders. If the share price increases, then the executive officer benefits along with the Company s stockholders. If the share price decreases, the executive officer s ultimate payout also declines.

While the Compensation Committee is responsible for executive officers compensation, the philosophy of providing the opportunity for superior remuneration for superior long-term performance is applied to all of the Company s professionals. The Company believes its long-term success is due to its ability to attract and retain top talent capable of superior performance and that the Company s compensation practices are an important element in the Company s continuing ability to attract and retain top talent.

Compensation Process

Each component of compensation is determined by the Compensation Committee. The Compensation Committee determines what changes, if any, should be made to continuing arrangements, such as base salaries and fringe benefits. When determining compensation for the coming year, the Compensation Committee reviews (a) the Company s results for the prior year, (b) the issues that will confront the Company in the coming year, (c) the individual performance of the executive officers, (d) the need to set compensation at levels that promote retention and (e) such other information it deems appropriate. The Compensation Committee does not assign specific weights to these factors. However, the most important of these factors is the Company s performance and, as described in this CD&A, the vast majority of executive compensation is highly contingent upon the Company s results.

In addition, the Compensation Committee from time to time considers executive compensation at competitors and other companies (including the aforementioned staffing industry study) as well as such factors as compensation as a percentage of total market value. After such review, it makes its ultimate determinations using its business judgment based upon its evaluation of such information and its long-term experience with the Company. The Compensation Committee has recently engaged Frederic W. Cook & Co. (FWC) as its independent compensation consultant. FWC is retained directly by the Compensation Committee (and not on behalf of management) and performs no other consulting or other services for the Company. No work performed by FWC during 2012 raised any conflict of interest. While the Compensation Committee receives input from the CEO and CFO and discusses compensation with them, the ultimate decision regarding compensation is solely at the discretion of the Compensation Committee.

The Stock Incentive Plan and Annual Performance Bonus Plan have been drafted to comply with Section 162(m) of the Internal Revenue Code. Compensation in compliance with such Section is fully deductible for income tax purposes. The other components of compensation are subject to the limitations of Section 162(m), which provides that any amounts above $1,000,000 paid in one year to certain executive officers are not tax deductible. In the past, such items have not exceeded $1,000,000 in one year for any individual, so there has been no limitation of tax deductibility. The Compensation Committee, while considering tax deductibility as one of its factors in determining compensation, will not necessarily limit compensation to those levels or types of compensation that will be tax deductible.

Other Benefits

As indicated by the tables appearing below, in addition to the foregoing compensation, each executive also participates in non-tax-qualified deferred compensation arrangements. The Compensation Committee considers deferred compensation arrangements to be appropriate for a corporation of the Company s size, and, in light of the moderate salaries and long service and historical results of management, believes that the amounts have been set at reasonable levels, particularly in light of the fact that the Company does not provide tax-qualified retirement arrangements for these executives. The Compensation Committee does not believe it is appropriate to offset these benefits by the value received from equity and other performance-based compensation because these arrangements serve different purposes and both are at levels the Compensation Committee believes to be reasonable. A detailed description of how the deferred compensation arrangements operate is set forth below in the two paragraphs under the Nonqualified Deferred Compensation table.

Various agreements, as described elsewhere in this proxy statement, provide for severance benefits in the event of a termination of employment before or after a change in control. (See the discussion below in connection with the Nonqualified Deferred Compensation table and the discussion below under the heading Employment Agreement and Potential Payments upon Termination or Change in Control.) As indicated by such text, the triggering events and benefits vary among each such arrangement, plan or agreement. Such triggering events and benefits were selected by the Compensation Committee in light of competitive conditions and customary practices at the time of their implementation, and the Compensation Committee believes that they continue to be reasonable.

2013 Pay Decisions

In line with the Company s pay for performance philosophy, base salaries will not be increased in 2013. In addition, the Compensation Committee, in consultation with FWC, has made the following changes to the cash and equity incentives for executive officers:

1. There is a new cash bonus plan proposal for 2013, as described below in the Proposal Regarding the Annual Performance Bonus Plan. The proposal changes the performance metrics available under the Annual Performance Bonus Plan from only EPS to one or more complementary operating metrics to be selected by the Compensation Committee.

For 2013, the Compensation Committee has selected revenue and net income as the metrics to emphasize both top line and bottom line performance and eliminate the duplication of metrics under the Annual Performance Bonus Plan and the Stock Incentive Plan. For 2013, the target metrics are revenue of $4.35 billion (an increase of 5.8% over 2012) and net income of $255 million (an increase of 21% over 2012). Target bonuses for 2013 have been set at the same amounts as 2012 bonuses without increase.

2. There is also a new Stock Incentive Plan proposal, as described below in the Proposal Regarding the Stock Incentive Plan. The proposal changes the performance metrics available under the Stock Incentive Plan from only EPS to one or more complementary operating metrics to be selected by the Compensation Committee.

For 2013, the Compensation Committee will retain EPS as a performance metric for 2013 grants but is also adding a three-year relative total shareholder return performance condition that can modify the award up or down by as much as 50%. The Compensation Committee is using an industry peer group for measurement of relative total shareholder return. The equity awards made in 2013 under the Stock Incentive Plan are subject to three-year cliff vesting. The target EPS metric for 2013 for plan purposes is $1.83 (an increase of 22% over 2012.) Target equity values for 2013 (using grant date market value) have been set by the Committee at levels 10% below 2012 values. The lower values reflect the fact that above target performance can result in above target earnout of the awards.

COMPENSATION TABLES

2012 Summary Compensation Table

The following table summarizes compensation for the Named Executive Officers (the Chief Executive Officer, the Chief Financial Officer and the three other executive officers who had the highest compensation for 2012) in accordance with Securities and Exchange Commission rules.