

KFORCE INC  
Form 10-Q  
August 04, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-26058

**Kforce Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: KFORCE INC - Form 10-Q

**FLORIDA**  
(State or other jurisdiction of  
incorporation or organization)

**59-3264661**  
(I.R.S. Employer  
Identification No.)

**1001 East Palm Avenue**

**TAMPA, FLORIDA**  
(Address of principal executive offices)

**33605**  
(Zip-Code)

**Registrant's telephone number, including area code: (813) 552-5000**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares outstanding of the registrant's common stock as of August 1, 2011, was 42,599,846.

**Table of Contents****KFORCE INC.****QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2011****TABLE OF CONTENTS**

<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	
Item 1.	<u>Financial Statements.</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	30
Item 4.	<u>Controls and Procedures.</u>	30
<b>PART II</b>	<b>OTHER INFORMATION</b>	
Item 1.	<u>Legal Proceedings.</u>	31
Item 1A.	<u>Risk Factors.</u>	31
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	32
Item 3.	<u>Defaults Upon Senior Securities.</u>	32
Item 4.	<u>Reserved.</u>	32
Item 5.	<u>Other Information.</u>	32
Item 6.	<u>Exhibits.</u>	33
	<b><u>SIGNATURES</u></b>	34
	<b>SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS</b>	

References in this document to the Registrant, Kforce, we, our or us refer to Kforce Inc. and its subsidiaries, except where the context otherwise requires.

This report, particularly Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) and Part II, Item 1A, Risk Factors, and the documents we incorporate into this report, contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements may include, but may not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, future prospects, anticipated costs and benefits of proposed (or future) acquisitions, integration of acquisitions, plans for future operations, capabilities of business operations, effects of interest rate variations, our ability to obtain financing and favorable terms, financing needs or plans, plans relating to services of Kforce, estimates concerning the effects of litigation or other disputes, estimates concerning our ability to collect on our accounts receivable, expectations of the economic environment, developments within the staffing sector including, but not limited to, the penetration rate and growth in temporary staffing, as well as assumptions as to any of the foregoing and all statements that are not based on historical fact but rather reflect our current expectations concerning future results and events. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and MD&A sections. In addition, when used in this discussion, the terms anticipates, estimates, expects, intends, plans, believes, will, may, could, should and variations thereof and similar expressions are intended to refer to forward-looking statements.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted. Future events and actual results could differ materially from those set forth in or underlying the forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained in this report, which speak only as of the date of this report. Kforce undertakes no obligation to publicly publish the results of any adjustments to these forward-looking statements that may be made to reflect events on or after the date of this report or to reflect the occurrence of unexpected events.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****KFORCE INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE INCOME***(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)*

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Flexible billings	\$ 261,808	\$ 236,270	\$ 514,097	\$ 455,033
Search fees	12,181	9,867	22,280	17,760
Net service revenues	273,989	246,137	536,377	472,793
Direct costs of services	187,341	167,742	371,216	326,253
Gross profit	86,648	78,395	165,161	146,540
Selling, general and administrative expenses	72,163	66,222	139,386	127,162
Depreciation and amortization	3,211	3,137	6,547	6,113
Income from operations	11,274	9,036	19,228	13,265
Other expense, net	335	269	651	643
Income before income taxes	10,939	8,767	18,577	12,622
Income tax expense	4,154	3,623	6,952	4,770
Net income	6,785	5,144	11,625	7,852
Other comprehensive income:				
Defined benefit pension and postretirement plans, net of tax	6	6	28	31
Comprehensive income	\$ 6,791	\$ 5,150	\$ 11,653	\$ 7,883
Earnings per share basic	\$ 0.17	\$ 0.13	\$ 0.29	\$ 0.20
Earnings per share diluted	\$ 0.17	\$ 0.13	\$ 0.29	\$ 0.19
Weighted average shares outstanding basic	39,531	39,500	39,689	39,379
Weighted average shares outstanding diluted	40,465	40,532	40,689	40,452

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

**Table of Contents****KFORCE INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS***(IN THOUSANDS)*

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 685	\$ 1,055
Trade receivables, net of allowances of \$2,563 and \$4,021, respectively	166,724	148,507
Income taxes receivable	2,822	5,675
Deferred tax asset, net	3,893	4,950
Prepaid expenses and other current assets	7,269	5,014
Total current assets	181,393	165,201
Fixed assets, net	36,068	38,130
Other assets, net	33,884	32,941
Deferred tax asset, net	8,340	8,907
Intangible assets, net	7,160	7,787
Goodwill	138,078	138,078
Total assets	\$ 404,923	\$ 391,044
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 31,509	\$ 30,602
Accrued payroll costs	57,556	54,461
Credit facility	18,934	10,825
Other current liabilities	1,137	4,185
Income taxes payable	288	250
Total current liabilities	109,424	100,323
Long-term debt other	1,553	2,103
Other long-term liabilities	36,084	34,801
Total liabilities	147,061	137,227
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, \$0.01 par; 15,000 shares authorized, none issued and outstanding		
Common stock, \$0.01 par; 250,000 shares authorized, 68,459 and 66,542 issued, respectively	685	665
Additional paid-in capital	365,398	355,869
Accumulated other comprehensive loss	(1,452)	(1,480)
Retained earnings	73,604	61,979
Treasury stock, at cost; 25,894 and 24,823 shares, respectively	(180,373)	(163,216)
Total stockholders equity	257,862	253,817
Total liabilities and stockholders equity	\$ 404,923	\$ 391,044

Edgar Filing: KFORCE INC - Form 10-Q

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

**Table of Contents**

**KFORCE INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENT**  
**OF CHANGES IN STOCKHOLDERS' EQUITY**  
*(IN THOUSANDS)*

	<b>Six Months Ended June 30, 2011</b>
<b>Common stock – shares:</b>	
Shares at beginning of period	66,542
Issuance of restricted stock	1,569
Exercise of stock options and stock appreciation rights	348
<b>Shares at end of period</b>	<b>68,459</b>
<b>Common stock – par value:</b>	
Balance at beginning of period	\$ 665
Issuance of restricted stock	16
Exercise of stock options and stock appreciation rights	4
<b>Balance at end of period</b>	<b>\$ 685</b>
<b>Additional paid-in capital:</b>	
Balance at beginning of period	\$ 355,869
Issuance of restricted stock	(16)
Exercise of stock options and stock appreciation rights	2,504
Income tax benefit from stock-based compensation	1,190
Employee stock purchase plan	193
Stock-based compensation expense	5,658
<b>Balance at end of period</b>	<b>\$ 365,398</b>
<b>Accumulated other comprehensive loss:</b>	
Balance at beginning of period	\$ (1,480)
Pension and postretirement plans, net of tax	28
<b>Balance at end of period</b>	<b>\$ (1,452)</b>
<b>Retained earnings:</b>	
Balance at beginning of period	\$ 61,979
Net income	11,625
<b>Balance at end of period</b>	<b>\$ 73,604</b>
<b>Treasury stock – shares:</b>	
Shares at beginning of period	24,823
Open market repurchases of common stock	869
	90

## Edgar Filing: KFORCE INC - Form 10-Q

Shares repurchased for minimum tax withholding on restricted stock, stock option exercises and stock appreciation rights		131
Shares tendered in payment of the exercise price of stock options		(19)
Employee stock purchase plan		25,894
<b>Shares at end of period</b>		<b>25,894</b>
Treasury stock cost :		
Balance at beginning of period	\$	(163,216)
Open market repurchases of common stock		(13,304)
Shares repurchased for minimum tax withholding on restricted stock, stock option exercises and stock appreciation rights		(1,585)
Shares tendered in payment of the exercise price of stock options		(2,401)
Employee stock purchase plan		133
<b>Balance at end of period</b>	<b>\$</b>	<b>(180,373)</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.



**Table of Contents****KFORCE INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(IN THOUSANDS)*

	Six Months Ended	
	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Net income	\$ 11,625	\$ 7,852
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Deferred income tax provision, net	1,607	1,321
Depreciation and amortization	6,547	6,113
Stock-based compensation	5,658	2,906
Recovery of bad debts on accounts receivable and other accounts receivable reserves	(1,189)	(658)
Pension and postretirement benefit plans expense	2,194	1,993
Alternative long-term incentive award	7	560
Deferred compensation liability increase (decrease), net	784	(487)
Tax benefit attributable to stock-based compensation	1,190	1,463
Excess tax benefit attributable to stock-based compensation	(826)	(995)
(Gain) loss on cash surrender value of company-owned life insurance	(354)	1,091
Other	143	101
(Increase) decrease in operating assets:		
Trade receivables, net	(17,028)	(19,110)
Income tax refund receivable	2,853	(2,283)
Prepaid expenses and other current assets	(2,256)	(1,710)
Other assets, net	37	(113)
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued liabilities	761	(167)
Accrued payroll costs	3,421	817
Income taxes payable	38	(279)
Other long-term liabilities	(4,334)	(1,245)
Cash provided by (used in) operating activities	10,878	(2,830)
Cash flows from investing activities:		
Capital expenditures	(2,905)	(32,593)
Premiums paid for company-owned life insurance policies	(1,753)	(2,197)
Other	40	83
Cash used in investing activities	(4,618)	(34,707)
Cash flows from financing activities:		
Proceeds from bank line of credit	226,449	275,780
Payments on bank line of credit	(218,340)	(240,780)
Payments of capital expenditure financing	(930)	(938)
Short-term vendor financing	147	(320)
Excess tax benefit attributable to stock-based compensation	826	995
Open market repurchases of common stock	(13,304)	
Proceeds from exercise of stock options, net of shares tendered in payment of the exercise price of stock options	107	1,691
Shares repurchased for minimum tax withholding on restricted stock awards, stock option exercises and SARs	(1,585)	(1,293)
Cash (used in) provided by financing activities	(6,630)	35,135
Decrease in cash and cash equivalents	(370)	(2,402)

## Edgar Filing: KFORCE INC - Form 10-Q

Cash and cash equivalents at beginning of period	1,055	2,812
Cash and cash equivalents at end of period	\$ 685	\$ 410
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes, net	\$ 1,232	\$ 4,365
Interest, net	\$ 359	\$ 354
Non-Cash Transaction Information:		
Employee stock purchase plan	\$ 326	\$
Shares tendered in payment of the exercise price of stock options and SARs	\$ 2,401	\$ 1,316
Equipment acquired under capital lease	\$ 198	\$ 605

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

---

**Table of Contents**

**KFORCE INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)*

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization and Nature of Operations***

Kforce Inc. and subsidiaries (collectively, Kforce) provide professional staffing services and solutions to customers in the following segments: Technology (Tech), Finance and Accounting (FA), Health and Life Sciences (HLS) and Government Solutions (GS). Kforce provides flexible staffing services and solutions on both a temporary and full-time basis. Kforce operates through its corporate headquarters in Tampa, Florida and its 63 field offices, which are located throughout the United States (the U.S.). One of our subsidiaries, Kforce Global Solutions, Inc. (Global), provides information technology outsourcing services internationally through an office in Manila, Philippines. Our international operations comprised approximately 2% of net service revenues for the six months ended June 30, 2011 and are included in our Tech segment.

Kforce serves clients from the Fortune 1000, the Federal Government, state and local governments, local and regional companies and small to mid-sized companies.

***Basis of Presentation***

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting. Accordingly, certain information and footnotes normally required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements have been condensed or omitted pursuant to those rules and regulations, although Kforce believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. In management's opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of our financial condition as of June 30, 2011, our results of operations and cash flows for the six months ended June 30, 2011. The data in the condensed consolidated balance sheet as of December 31, 2010 was derived from our audited consolidated balance sheet as of December 31, 2010, as presented in our 2010 Annual Report on Form 10-K.

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers' businesses. In addition, we experience an increase in direct costs of services and a corresponding decrease in gross profit in the first fiscal quarter of each year as a result of certain U.S. state and federal employment tax resets. Thus, the results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for a full year.

***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of Kforce Inc. and its wholly-owned subsidiaries. References in this document to Kforce, the Company, we, our or us refer to Kforce and its subsidiaries, except where the context indicates otherwise. All intercompany transactions and balances have been eliminated in consolidation.

In addition to its wholly-owned subsidiaries, the condensed consolidated financial statements of Kforce also include its 49% interest in a joint venture, which was acquired in the 2008 acquisition of RDI Systems, Inc., d/b/a dNovus RDI (RDI or dNovus). This joint venture is recorded as an investment in an unconsolidated entity and is accounted for under the equity method of accounting. Kforce's equity in the earnings of its equity method investment is recorded as income with a corresponding increase in the investment with distributions received reducing the investment. This investment had an insignificant effect on the accompanying unaudited condensed consolidated financial statements for all periods presented.

***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

## Edgar Filing: KFORCE INC - Form 10-Q

amounts of revenues and expenses during the reporting period. The most important of these estimates and assumptions relate to the following: allowance for doubtful accounts, fallouts and other accounts receivable reserves; accounting for goodwill and identifiable intangible assets and any related impairment; self-insured liabilities for workers compensation and health insurance; stock-based compensation; obligations for pension and postretirement benefit plans; expected annual commission rates and accounting for income taxes. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

---

## **Table of Contents**

### ***Cash and Cash Equivalents***

Kforce classifies all highly liquid investments with an original initial maturity of three months or less as cash equivalents. Cash and cash equivalents consist of cash on hand with banks, either in commercial accounts or overnight interest-bearing money market accounts and, at times, may exceed federally insured limits. Cash and cash equivalents are stated at cost, which approximates fair value due to the short duration of their maturities.

### ***Accounts Receivable Reserves***

Kforce establishes its reserves for expected credit losses, fallouts, early payment discounts and revenue adjustments based on past experience and estimates of potential future activity. Specific to our allowance for doubtful accounts, which comprises a majority of our accounts receivable reserves, Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, a specific analysis of significant receivable balances that are past due, the concentration of accounts receivable among clients and higher-risk sectors, and the current state of the U.S. economy. Trade receivables are written off by Kforce after all reasonable collection efforts have been exhausted.

Accounts receivable reserves as a percentage of gross accounts receivable were 1.5% and 2.6% as of June 30, 2011 and December 31, 2010, respectively.

### ***Revenue Recognition***

We earn revenues from two primary sources: Flexible billings and Search fees. Flexible billings are recognized as the services are provided by Kforce's temporary employees, who are Kforce's legal employees while they are working on assignments. Kforce pays all related costs of such employment; including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. Search fees are recognized by Kforce when employment candidates accept offers of permanent employment and are scheduled to commence employment within 30 days. Kforce records revenues net of an estimated reserve for fallouts, which is based on Kforce's historical fallout experience. Fallouts occur when a candidate does not remain employed with the client throughout the contingency period, which is typically 90 days or less.

Net service revenues represent services rendered to customers less credits, discounts, rebates and allowances. Revenues include reimbursements of travel and out-of-pocket expenses (billable expenses) with equivalent amounts of expense recorded in direct costs of services.

Our GS segment generates its revenues under contracts that are, in general, greater in duration than our other segments and which can often span several years. GS provides these services under time and materials (which account for the majority of this segment's contracts), fixed-price, and cost-plus contracts. Our GS segment does not generate any Search fees. Except as provided below, Kforce considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured.

- i Revenues for time and materials contracts, which accounts for approximately 59% of this segment's revenue, are recorded based on contractually-established billing rates at the time services are provided.
- i Revenues on fixed-price contracts are recognized on the basis of the estimated percentage-of-completion. Approximately 31% of this segment's revenues are recognized under this method. Progress towards completion is typically measured based on costs incurred as a proportion of estimated total costs or other measures of progress when available. Profit in a given period is reported at the expected profit margin to be achieved on the overall contract.

### ***Direct Costs of Services***

Direct costs of services are composed primarily of payroll wages, payroll taxes, payroll-related insurance for Kforce's flexible employees, and subcontractor costs. Direct costs of permanent placement services primarily consist of reimbursable expenses. Direct costs of services exclude depreciation and amortization expense, which is presented on a separate line in the accompanying consolidated statements of operations and comprehensive income.

### ***Income Taxes***

## Edgar Filing: KFORCE INC - Form 10-Q

Kforce accounts for income taxes using the asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Unless it is more likely than not that a deferred tax asset can be utilized to offset future taxes, a valuation allowance must be recorded against that asset. The tax benefits of deductions attributable to employees' disqualifying dispositions of shares obtained from incentive stock options, exercises of non-qualified stock options, and vesting of restricted stock are reflected as increases in additional paid-in capital.

---

**Table of Contents**

Kforce evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. Kforce uses a two-step approach to recognize and measure uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, tax positions are measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. Kforce recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying unaudited condensed consolidated financial statements.

***Fair Value Measurements***

Kforce uses the framework established by the Financial Accounting Standards Board ( FASB ) for measuring fair value and disclosures about fair value measurements. Kforce uses fair value measurements in areas that include, but are not limited to: the allocation of purchase price consideration to tangible and identifiable intangible assets; impairment testing of goodwill and long-lived assets; share-based compensation arrangements and capital lease obligations. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our debt approximates fair value due to the variable nature of the interest rates under Kforce's credit facility resulting from the Second Amended and Restated Credit Agreement that it entered into on October 2, 2006 with a syndicate led by Bank of America, N.A. (the Credit Facility ). Using available market information and appropriate valuation methodologies, Kforce has determined the estimated fair value measurements; however, considerable judgment is required in interpreting data to develop the estimates of fair value.

***Fixed Assets***

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases, which range from three to five years.

***Impairment of Long-Lived Assets***

Kforce reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceed the fair value of the assets. There were no impairment charges recorded during the three and six months ended June 30, 2011 or 2010.

***Goodwill and Other Intangible Assets******Goodwill***

Kforce performs an annual review to ensure that no impairment of goodwill exists or more frequently if events or changes in circumstances indicate that the value of goodwill may not be recoverable. Kforce considered factors, including continued economic developments and the overall macro-economic environment, and determined that there was a potential triggering event for our GS reporting unit necessitating an interim review of the carrying value of goodwill. Further discussion of the interim review is discussed within Note E, *Goodwill and Other Intangible Assets*, to the Unaudited Condensed Consolidated Financial Statements. There were no triggering events for our Tech, FA or HLS reporting units. There were no impairment charges recorded during the three and six months ended June 30, 2011 or 2010.

***Other Intangible Assets***

Identifiable intangible assets arising from certain of Kforce's acquisitions include non-compete and employment agreements, contractual relationships, customer contracts, trademarks and trade names. The impairment evaluation for indefinite-lived intangible assets, which consist of trademarks and trade names, is conducted as of December 31 of each fiscal year or more frequently if events or changes in circumstances indicate that an asset may be impaired.

For definite-lived intangible assets, Kforce has determined that the straight-line method is an appropriate methodology to allocate the cost over the periods of expected benefit, which range from one to 15 years.

There were no impairment charges recorded during the three and six months ended June 30, 2011 or 2010.





---

**Table of Contents*****Capitalized Software***

Kforce purchases, develops, and implements new computer software to enhance the performance of our Company-wide technology infrastructure. Direct internal costs, such as payroll and payroll-related costs, and external costs incurred during the development stage of each project, are capitalized and classified as capitalized software. Kforce capitalized development-stage implementation costs of \$697 and \$1,472 during the three and six months ended June 30, 2011, respectively, compared to \$1,101 and \$2,251 during the three and six months ended June 30, 2010, respectively. Capitalized software development costs are classified as other assets, net in the accompanying unaudited condensed consolidated balance sheets and are being amortized over the estimated useful lives of the software, which range from one to five years, using the straight-line method.

***Commissions***

Our associates make placements and earn commissions as a percentage of actual revenues or gross profit pursuant to a calendar-year-basis commission plan. The amount of commissions paid as a percentage of revenues or gross profit increases as volume increases. Kforce accrues commissions for actual revenues or gross profit at a percentage equal to the percent of total expected commissions payable to total revenues or gross profit for the year, as applicable.

***Stock-Based Compensation***

Kforce accounts for stock-based compensation by measuring the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. For awards settled in cash, we measure compensation expense based on the fair value of the award at each reporting date, net of estimated forfeitures. For awards issued with performance conditions, Kforce recognizes compensation expense for only the portion of the award that is expected to vest, rather than record forfeitures when they occur. If the actual number of forfeitures differs from those estimated, additional adjustments to compensation expense may be required in future periods.

***Accounting for Postretirement Benefits***

Kforce recognizes the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur through other comprehensive income. Kforce also measures the funded status of the defined benefit postretirement plan as of the date of its fiscal year-end, with limited exceptions.

Amortization of a net unrecognized gain or loss in accumulated other comprehensive income is included as a component of net periodic benefit cost and net periodic postretirement benefit cost if, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit obligation or accumulated postretirement benefit obligation. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active plan participants.

***Workers Compensation***

Kforce retains the economic burden for the first \$250 per occurrence in workers compensation claims except: (i) in states that require participation in state-operated insurance funds and (ii) for its GS segment which is fully insured for 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. Workers compensation expense includes insurance premiums paid, claims administration fees charged by Kforce's workers compensation administrator, premiums paid to state-operated insurance funds and an estimate for Kforce's liability for Incurred but Not Reported ( IBNR ) claims and for the ongoing development of existing claims.

Kforce estimates its workers compensation liability based upon historical claims experience, actuarially determined loss development factors, and qualitative considerations such as claims management activities.

***Health Insurance***

Except for certain fully-insured health insurance lines of coverage, Kforce retains liability of up to \$270 annually for each health insurance plan participant. For its partially self-insured lines of coverage, health insurance costs are accrued using estimates to approximate the liability for reported claims and IBNR claims, which are primarily based upon an evaluation of historical claims experience, actuarially-determined completion factors and a qualitative review of our health insurance exposure, including the extent of outstanding claims and expected changes in

health insurance costs.

**Table of Contents****Taxes Assessed by Governmental Agencies Revenue Producing Transactions**

Kforce collects sales tax for various taxing authorities and it is our policy to record these amounts on a net basis; thus, sales tax amounts are not included in net service revenues.

**Business Combinations**

Kforce utilizes the acquisition method in accounting for acquisitions whereby the amount of purchase price that exceeds the fair value of the acquired assets and assumed liabilities is allocated to goodwill. Kforce recognizes intangible assets apart from goodwill if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. Assumptions and estimates are used in determining the fair value of assets acquired and liabilities assumed in a business combination. Valuation of intangible assets acquired requires that we use significant judgment in determining fair value, whether such intangibles are amortizable and, if the asset is amortizable, the period and the method by which the intangible asset will be amortized. Changes in the initial assumptions could lead to changes in amortization charges recorded in our financial statements. Additionally, estimates for purchase price allocations may change as subsequent information becomes available.

**Earnings per Share**

Basic earnings per share is computed as earnings divided by the weighted average number of common shares outstanding during the period. Basic weighted average shares outstanding excludes unvested shares of restricted stock ( RS ) and performance-accelerated restricted stock ( PARS ). Diluted earnings per common share is computed by dividing the earnings attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period plus the dilutive effect of stock options and other potentially dilutive securities such as unvested shares of RS using the treasury stock method, except where the effect of including potential common shares would be anti-dilutive. Weighted average shares outstanding for purposes of computing diluted earnings per common share excludes contingently issuable unvested PARS unless the performance condition has been achieved as of the end of the reporting period.

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net income	\$ 6,785	\$ 5,144	\$ 11,625	\$ 7,852
<b>Denominator:</b>				
Weighted average shares outstanding basic	39,531	39,500	39,689	39,379
Common stock equivalents	934	1,032	1,000	1,073
Weighted average shares outstanding diluted	40,465	40,532	40,689	40,452
Earnings per share basic	\$ 0.17	\$ 0.13	\$ 0.29	\$ 0.20
Earnings per share diluted	\$ 0.17	\$ 0.13	\$ 0.29	\$ 0.19

For the three and six months ended June 30, 2011, total weighted average awards to purchase or receive 33 and 0 shares of common stock, respectively, were not included in the computations of diluted earnings per share because their inclusion would have had an anti-dilutive effect on earnings per share. For the three and six months ended June 30, 2010, total weighted average awards to purchase or receive 33 and 116 shares of common stock, respectively, were not included in the computations of diluted earnings per share because their inclusion would have had an anti-dilutive effect on earnings per share.

**Treasury Stock**

Kforce's Board of Directors ( Board ) may authorize share repurchases of Kforce's common stock. Shares repurchased under Board authorizations are held in treasury for general corporate purposes, including issuances under various employee share-based award plans. Treasury shares are accounted for under the cost method and reported as a reduction of stockholders' equity in the accompanying unaudited condensed consolidated

financial statements.

---

## **Table of Contents**

### ***Comprehensive Income***

Accumulated other comprehensive income represents the net after-tax impact of unrecognized actuarial gains and losses related to: (i) the supplemental executive retirement plan and supplemental executive retirement health plan, both of which cover a limited number of executives, and (ii) a defined benefit plan covering all eligible employees in our Philippine operations. Because each of these plans is unfunded as of June 30, 2011, the actuarial gains and losses arise as a result of the actuarial experience of the plans as well as changes in actuarial assumptions in measuring the associated obligation as of year-end, or at an interim date if any re-measurement is necessary. This information is provided in our unaudited condensed consolidated statements of operations and comprehensive income.

### ***Subsequent Events***

Kforce considers events that occur after the balance sheet date but before the financial statements are issued to determine appropriate accounting and disclosure for those events. We evaluated all events or transactions that occurred subsequent to June 30, 2011 and through the time of filing this Quarterly Report on Form 10-Q. We are not aware of any significant events that occurred subsequent to June 30, 2011 but prior to the filing of this report that would have a material impact on our unaudited condensed consolidated financial statements.

### ***New Accounting Standards***

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a set of standards and interpretations adopted by the International Accounting Standards Board. Under the proposed roadmap, Kforce would be required to prepare its financial statements in accordance with IFRS in our fiscal year ending December 31, 2015. Kforce is currently assessing the potential impact of IFRS on its financial statements and will continue to follow the proposed roadmap for future developments. In February 2010, the SEC released a policy statement confirming the continuous movement towards a vote during 2011 on whether to move ahead with a mandate for the required use of IFRS for U.S. public companies as well as an estimated timeline.

## **Note B Commitments and Contingencies**

### ***Litigation***

As disclosed in our previous filings with the SEC, Kforce was a defendant in a California class action lawsuit alleging misclassification of California Account Managers and seeking unspecified damages. The tentative settlement referred to in our Annual Report on Form 10-K for the year ended December 31, 2010 was approved by the Court during the three months ended June 30, 2011 in the amount of \$2,526, which has been recorded within accounts payable and other accrued liabilities in the accompanying unaudited condensed consolidated balance sheets. The settlement is expected to be paid during the year ended December 31, 2011.

On June 6, 2011, the Chicago District Office of the Equal Employment Opportunity Commission (EEOC) issued a Determination on a Charge of Discrimination, brought by an individual in 2006, that reasonable cause exists to believe that Kforce discriminated against a class of individuals because of their age by harassing and terminating them and discriminated against another class of individuals because of their age by denying them employment, in violation of the Age Discrimination in Employment Act of 1967. Kforce believes it has meritorious defenses to the EEOC's allegations. The EEOC has invited Kforce to participate in conciliation efforts, and Kforce has accepted the invitation. At this stage of the matter, it is not feasible to predict the outcome or a range of loss, should a loss occur, and accordingly, no amounts have been provided in the accompanying unaudited condensed consolidated financial statements.

In the ordinary course of its business, Kforce is from time to time threatened with litigation or named as a defendant in various lawsuits and administrative proceedings. While management does not expect any of these other matters to have a material adverse effect on the Company's results of operations, financial position or cash flows, litigation is subject to certain inherent uncertainties. Kforce maintains liability insurance in such amounts and with such coverage and deductibles as management believes is reasonable. The principal liability risks that Kforce insures against are workers' compensation, personal injury, bodily injury, property damage, directors' and officers' liability, errors and omissions, employment practices liability and fidelity losses. There can be no assurance that Kforce's liability insurance will cover all events or that the limits of coverage will be sufficient to fully cover all liabilities.

Other than as described above, Kforce is not aware of any litigation that would reasonably be expected to have a material adverse effect on its results of operations, its cash flows or its financial condition.



---

**Table of Contents**
***Employment Agreements***

Kforce has entered into employment agreements with certain executives that provide for minimum compensation, salary and continuation of certain benefits for a six-month to a three-year period under certain circumstances. The agreements also provide for a severance payment of one to three times annual salary and one half to three times average annual bonus if such an agreement is terminated without good cause by the employer or for good reason by the employee. These agreements contain certain post-employment restrictive covenants. Kforce's liability at June 30, 2011 would have been approximately \$63,126 if all of the employees under contract were terminated without good cause by the employer or the employees resigned for good reason following a change in control, and \$16,905 if all of the employees under contract were terminated by Kforce without good cause or the employees resigned for good reason in the absence of a change of control.

Kforce has not recorded any liability related to the employment agreements as no events have occurred that would require payment under the agreements.

**Note C Employee Benefit Plans*****Foreign Pension Plan***

Kforce maintains a foreign defined benefit pension plan for eligible employees of the Philippines branch of Global that is required by Philippine labor law. The plan defines retirement as those employees who have attained the age of 60 and have completed at least five years of credited service. Benefits payable under the plan equate to one-half month's salary for each year of credited service. Benefits under the plan are paid out as a lump sum to eligible employees at retirement.

The net periodic benefit cost recognized for the three and six months ended June 30, 2011 was based upon the actuarial valuation at the beginning of the fiscal year, which utilized the assumptions noted in our Annual Report on Form 10-K for the year ended December 31, 2010. For the three and six months ended June 30, 2011, net periodic benefit cost was \$47 and \$98, respectively. For the three and six months ended June 30, 2010, net periodic benefit cost was \$27 and \$55, respectively.

As of June 30, 2011 and December 31, 2010, the projected benefit obligation associated with our foreign defined benefit pension plan was \$792 and \$694, respectively, which is classified in other long-term liabilities.

***Supplemental Executive Retirement Plan***

Effective December 31, 2006, Kforce implemented a Supplemental Executive Retirement Plan (the "SERP") for the benefit of certain Named Executive Officers ("NEOs"). The primary goals of the SERP are to create an additional wealth accumulation opportunity, restore lost qualified pension benefits due to government limitations and retain the NEOs. The SERP is a non-qualified benefit plan and does not include elective deferrals of the NEOs' compensation.

Normal retirement age under the SERP is defined as age 65; however, certain conditions allow for early retirement as early as age 55 or upon a change in control. Vesting under the plan is defined as 100% upon a participant's attainment of age 55 and 10 years of service and 0% prior to a participant's attainment of age 55 and 10 years of service. Full vesting also occurs if a participant with five years or more of service is involuntarily terminated by Kforce without cause or upon death, disability or a change in control. The SERP is funded entirely by Kforce, and benefits are taxable to the executive officer upon receipt and deductible by Kforce when paid. Benefits payable under the SERP upon the occurrence of a qualifying distribution event, as defined, are targeted at 45% of the covered executive officers' average salary and bonus, as defined, from the three years in which the executive officer earned the highest salary and bonus during the last 10 years of employment, which is subject to adjustment for retirement prior to the normal retirement age and the participant's vesting percentage. The benefits under the SERP are reduced for a participant that has not reached age 62 with 10 years of service or age 55 with 25 years of service with a percentage reduction up to the normal retirement age.

Benefits under the SERP are normally paid based on the lump sum present value but may be paid through a 10-year annuity for certain distribution events, as elected by the NEO upon commencement of participation in the SERP. None of the benefits earned pursuant to the SERP are attributable to services provided prior to December 31, 2006. For purposes of the measurement of the benefit obligation, Kforce has assumed that all participants will elect to take the lump sum present value option.

The following represents the components of net periodic benefit cost for the three and six months ended:

Edgar Filing: KFORCE INC - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	\$ 812	\$ 756	\$ 1,624	\$ 1,512
Interest cost	121	99	241	198
Amortization of actuarial loss	19	21	38	41
Net periodic benefit cost	\$ 952	\$ 876	\$ 1,903	\$ 1,751



**Table of Contents**

The net periodic benefit cost recognized for the three and six months ended June 30, 2011 was based upon the actuarial valuation at the beginning of the year, which utilized the assumptions noted in our Annual Report on Form 10-K for the year ended December 31, 2010. There is no requirement for Kforce to fund the SERP and, as a result, no contributions were made to the SERP during the six months ended June 30, 2011. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2011.

**Supplemental Executive Retirement Health Plan**

Effective April 20, 2007, the Board approved the Supplemental Executive Retirement Health Plan ( SERHP ) to provide postretirement health and welfare benefits to certain executives. The vesting and eligibility requirements mirror that of the SERP, and no advance funding is required by Kforce or the participants. Consistent with the SERP, none of the benefits earned are attributable to services provided prior to the effective date.

The net periodic postretirement benefit cost recognized for the three and six months ended June 30, 2011 was based upon the actuarial valuation at the beginning of the year, which utilized the assumptions noted in our Annual Report on Form 10-K for the year ended December 31, 2010. For the three and six months ended June 30, 2011, net periodic postretirement benefit cost was \$95 and \$189, respectively. For the three and six months ended June 30, 2010, net periodic postretirement benefit cost was \$84 and \$169, respectively.

**Note D Stock Incentive Plans**

On June 20, 2006, the shareholders approved the 2006 Stock Incentive Plan. The aggregate number of shares of common stock that would have been subject to awards under the 2006 Stock Incentive Plan, subject to adjustment upon a change in capitalization, was 3,000. On June 16, 2009, the shareholders approved an amendment to the 2006 Stock Incentive Plan to increase the number of authorized awards that may be issued under the 2006 Stock Incentive Plan from 3,000 to 5,100. On June 25, 2010, the shareholders approved an amendment to the 2006 Stock Incentive Plan to increase the number of authorized awards that may be issued under the 2006 Stock Incentive Plan from 5,100 to 7,850.

The 2006 Stock Incentive Plan allows for the issuance of stock options, stock appreciation rights ( SARs ), PARS and RS, subject to share availability. Vesting of equity instruments issued under the 2006 Stock Incentive Plan is determined on a grant-by-grant basis. Options expire at the end of 10 years from the date of grant, and Kforce issues new shares upon exercise of options. The 2006 Stock Incentive Plan terminates on April 28, 2016. The Employee Incentive Stock Option Plan expired in 2005.

**Stock Options**

The following table presents the activity under each of the stock incentive plans discussed above for the six months ended June 30, 2011:

	Employee Incentive Stock Option Plan	2006 Stock Incentive Plan	Total	Weighted Average Exercise Price per Share	Total Intrinsic Value of Options Exercised
Outstanding as of December 31, 2010	587	98	685	\$ 9.47	
Exercised	(277)		(277)	\$ 9.07	\$ 2,500
Forfeited/Cancelled	(8)		(8)	\$ 10.62	
Outstanding and exercisable as of June 30, 2011	302	98	400	\$ 9.73	

No compensation expense was recorded during the three or six months ended June 30, 2011 or 2010. As of June 30, 2011, there was no unrecognized compensation cost related to stock options.

**Table of Contents****Stock Appreciation Rights**

Although no such requirement exists, SARs are generally granted (if any) on the first trading day of each year to certain Kforce executives based on the extent by which annual long-term incentive performance goals, which are established by Kforce's Compensation Committee during the first 90 days of the year of performance, are certified by the Compensation Committee as having been met. SARs generally cliff vest 100% three years from the date of issuance; however, vesting is accelerated if Kforce's stock price exceeds the stock price at the date of grant by 30% for a period of 10 trading days, or if the Compensation Committee determines that the criteria for acceleration are satisfied. There were no SARs granted in the six months ended June 30, 2011 and 2010.

The following table presents the activity for the six months ended June 30, 2011:

	# of SARs	Weighted Average Exercise Price Per SAR	Total Intrinsic Value of SARs Exercised
Outstanding as of December 31, 2010	169	\$ 10.32	
Exercised	(169)	\$ 10.32	\$ 1,278
Outstanding and exercisable as of June 30, 2011		\$	

No compensation expense related to SARs was recorded during the three or six months ended June 30, 2011 or 2010. There was no unrecognized compensation expense related to SARs as of June 30, 2011.

**Performance Accelerated Restricted Stock**

PARS are periodically granted to certain Kforce executives and are generally based on the extent by which annual long-term incentive performance goals, which are established by Kforce's Compensation Committee during the first 90 days of the year of performance, are certified by the Compensation Committee as having been met. PARS granted during the three months ended March 31, 2011 will cliff vest three years from the grant date. However, vesting is accelerated if Kforce's closing stock price exceeds the stock price at the date of grant by a pre-established percentage (which has historically ranged from 40 - 50%) for a period of 10 trading days, or if the Compensation Committee determines that the criteria for acceleration are satisfied.

Certain PARS granted during the three months ending March 31, 2011 are subject to forfeiture based upon the level of attainment of performance conditions established by the Compensation Committee. Vesting for these PARS may not occur until the Compensation Committee has certified the level of attainment of the performance conditions.

PARS contain voting rights and are included in the number of shares of common stock issued and outstanding. PARS granted subsequent to September 30, 2009 contain a non-forfeitable right to dividends or dividend equivalents in the form of additional shares of restricted stock containing the same vesting provisions as the underlying award. The following table presents the activity for the six months ended June 30, 2011:

	# of PARS	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2010	1,436	\$ 12.87
Granted	1,569	\$ 16.37
Vested	(69)	\$ 13.31
Outstanding as of June 30, 2011	2,936	\$ 14.73

## Edgar Filing: KFORCE INC - Form 10-Q

The fair market value of PARS is determined based on the closing stock price of Kforce's common stock at the date of grant, and is amortized on a straight-line basis over the derived service period, which is determined using a lattice model. The derived service period for the PARS granted during the six months ended June 30, 2011 is 3.00 years, which is subject to any acceleration provisions being met.

Kforce recognized total compensation expense related to PARS of \$2,527 and \$5,041 during the three and six months ended June 30, 2011, respectively. Kforce recognized total compensation expense related to PARS of \$1,260 and \$2,409 during the three and six months ended June 30, 2010, respectively. As of June 30, 2011, total unrecognized compensation expense related to PARS was \$24,304, which will be recognized over a weighted average remaining period of 2.39 years.

**Table of Contents****Restricted Stock**

RS is periodically granted to certain Kforce executives and is generally based on the extent by which annual long-term incentive performance goals, which are established by Kforce's Compensation Committee during the first 90 days of the year of performance, are certified by the Compensation Committee as having been met. RS granted during the six months ended June 30, 2010 had vesting terms ranging from one year to six years.

RS contain voting rights and are included in the number of shares of common stock issued and outstanding. RS granted subsequent to September 30, 2009 contain a non-forfeitable right to dividends or dividend equivalents in the form of additional shares of restricted stock containing the same vesting provisions as the underlying award. The following table presents the activity for the six months ended June 30, 2011:

	# of RS	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2010	462	\$ 10.68
Granted		\$
Vested	(64)	\$ 9.25
Outstanding as of June 30, 2011	398	\$ 10.91

The fair market value of restricted stock is determined based on the closing stock price of Kforce's common stock at the date of grant, and is amortized on a straight-line basis over the service period.

During the three and six months ended June 30, 2011, Kforce recognized compensation expense related to RS of \$310 and \$617, respectively. Kforce recognized compensation expense related to RS of \$251 and \$497 for the three and six months ended June 30, 2010, respectively. As of June 30, 2011, total unrecognized compensation expense related to RS was \$2,985, which will be recognized over a weighted average remaining period of 3.39 years.

**Note E Goodwill and Other Intangible Assets**

The following table sets forth the activity in goodwill and other intangible assets during the six months ended June 30, 2011:

	Goodwill	Other Intangible Assets, Net	Total
Balance as of December 31, 2010	\$ 138,078	\$ 7,787	\$ 145,865
Amortization of intangible assets		(627)	(627)
Balance as of June 30, 2011	\$ 138,078	\$ 7,160	\$ 145,238

As of June 30, 2011 and December 31, 2010, other intangible assets, net in the accompanying unaudited condensed consolidated balance sheets consisted of non-compete agreements, trade names, trademarks, customer relationships, customer contracts and customer lists. Indefinite-lived intangible assets, which consist of trade names and trademarks, amounted to \$2,240 as of June 30, 2011 and December 31, 2010. All of the other intangible assets, net represented less than 5% of total assets.

As of June 30, 2011 and December 31, 2010, accumulated amortization of intangible assets was \$23,009 and \$22,903, respectively. The estimated remaining amortization expense is \$507 for 2011, \$918 for 2012, \$752 for 2013, \$634 for 2014 and \$634 for 2015.



---

**Table of Contents**

***Goodwill Impairment Considerations***

During fiscal 2011, our GS segment has been adversely impacted by the U.S. Congress's inability to pass the 2011 US federal budget and its continuing to operate under a series of seven continuing resolutions thereby continuing funding at or near 2010 levels. We believe this has significantly delayed the contract procurement process and created uncertainty about the funding levels of various programs and agencies within the Federal Government. In addition, our GS reporting unit has been impacted by the Federal Government mandates to in-source certain positions that were previously occupied by contractors and the Federal Government's seemingly anti-contractor sentiment.

As a result of the above, Kforce performed an interim goodwill impairment test for its GS reporting unit during the second quarter of 2011. As of both June 30, 2011 and December 31, 2010, goodwill allocated to the GS reporting unit was \$102,641. We compared the carrying value of our GS reporting unit to its estimated fair value based on a weighting of both the income approach and the guideline transaction method. The guideline company method was not considered in the June 30, 2011 analysis as we believe it would not yield a reliable determination of fair value given current market conditions. We believe the guideline transaction method provides a more reasonable basis for our determination of fair value for the reporting unit resulting from recent transactions in the market which we believe to be reasonably comparable to GS.

Discounted cash flows, which serve as the primary basis for the income approach, were based on discrete financial forecasts which were developed by management for planning purposes and were consistent with those distributed within Kforce. Cash flows beyond the discrete forecast period of five years were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends and also considered long-term earnings growth rates for publicly-traded peer companies, as well as the risk-free rate of return. A terminal value growth rate of 3.0% was used for the GS reporting unit. For the calculation of fair value of the GS reporting unit for the second quarter of 2011, the income approach valuation included the reporting unit cash flow discount rate, representing the reporting unit's weighted average cost of capital, of 15.0%. Kforce believes that the financial forecast for our GS reporting unit reflects continued pressures on the Federal Government contracting landscape, as outlined above. For the calculation of fair value of our GS reporting unit for the second quarter of 2011, the guideline transaction method applied pricing multiples derived from recent acquisitions, including transactions occurring in 2011 that we believe reasonably comparable to the GS reporting unit to determine its value. Kforce utilized enterprise value/revenue multiples ranging from 0.57 to 1.42 and enterprise value/EBITDA multiples ranging from 4.7 to 11.6 in order to value our GS reporting unit under the guideline transaction method. Kforce assigned a weighting to each of the enterprise value ratios based on the ratio that is predominately used in the marketplace to value that type of business.

The results of the first step of the goodwill impairment test indicated that the fair value of the GS reporting unit exceeded its carrying value; therefore, the second step of the test to determine the implied fair value of goodwill for each reporting unit was not required. Kforce determined that the fair value of our GS reporting unit exceeded its carrying amount by 3.4%. Although the interim goodwill impairment analysis for GS utilized assumptions we believe to be reasonable and financial forecasts we believe to be achievable, we performed a sensitivity analysis by independently modifying the discount rate, long-term growth rate and forecasted operating results. A deterioration in the assumptions noted above could indicate impairment. As such, we will continue to closely monitor the GS reporting unit for any changes in assumptions or other indicators of impairment.

As previously mentioned, there was no indication of impairment for the Tech, FA or HLS reporting units.

**Table of Contents****Note F Reportable Segments**

Kforce's reportable segments are: (i) Tech; (ii) FA; (iii) HLS and (iv) GS. This determination was supported by, among other factors: the existence of segment presidents responsible for the operations of each segment and who also report directly to our chief operating decision maker, the nature of each segment's operations and information presented to the Board of Directors. Kforce also reports Flexible billings and Search fees separately by segment, which has been incorporated into the table below.

Historically, and for the three and six months ended June 30, 2011, Kforce has generated only revenue and gross profit information on a segment basis. As such, asset information by segment is not disclosed. Substantially all operations and long-lived assets are located in the U.S.

The following table provides information concerning the continuing operations of our segments for the three and six months ended June 30, 2011 and 2010:

	Technology	Finance and Accounting	Health and Life Sciences	Government Solutions	Total
<i>Three Months Ended June 30:</i>					
2011					
Net service revenues:					
Flexible billings	\$ 149,997	\$ 47,522	\$ 42,343	\$ 21,946	\$ 261,808
Search fees	4,537	7,252	392		12,181
Total net service revenues	\$ 154,534	\$ 54,774	\$ 42,735	\$ 21,946	\$ 273,989
Gross profit	\$ 45,168	\$ 21,260	\$ 13,259	\$ 6,961	\$ 86,648
2010					
Net service revenues:					
Flexible billings	\$ 129,961	\$ 38,152	\$ 41,066	\$ 27,091	\$ 236,270
Search fees	4,130	5,282	455		9,867
Total net service revenues	\$ 134,091	\$ 43,434	\$ 41,521	\$ 27,091	\$ 246,137
Gross profit	\$ 39,907	\$ 16,626	\$ 13,025	\$ 8,837	\$ 78,395
<i>Six Months Ended June 30:</i>					
2011					
Net service revenues:					
Flexible billings	\$ 289,410	\$ 95,387	\$ 84,001	\$ 45,299	\$ 514,097
Search fees	8,304	13,219	757		22,280
Total net service revenues	\$ 297,714	\$ 108,606	\$ 84,758	\$ 45,299	\$ 536,377
Gross profit	\$ 85,415	\$ 40,287	\$ 25,664	\$ 13,795	\$ 165,161
2010					
Net service revenues:					
Flexible billings	\$ 246,427	\$ 73,882	\$ 81,095	\$ 53,629	\$ 455,033
Search fees	7,340	9,695	725		17,760
Total net service revenues	\$ 253,767	\$ 83,577	\$ 81,820	\$ 53,629	\$ 472,793
Gross profit	\$ 73,849	\$ 30,840	\$ 25,083	\$ 16,768	\$ 146,540

---

**Table of Contents**

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help the reader understand Kforce, our operations, and our present business environment. This MD&A should be read in conjunction with Item 1. Financial Statements of this Report on Form 10-Q.

This overview summarizes the MD&A, which includes the following sections:

*Executive Summary* an executive summary of our results of operations for the six months ended June 30, 2011.

*Critical Accounting Estimates* a discussion of the accounting estimates that are most critical to fully understanding and evaluating our reported financial results and that require management's most difficult, subjective or complex judgments.

*New Accounting Standards* a discussion of recently issued accounting standards and their potential impact on our consolidated financial statements.

*Results of Operations* an analysis of Kforce's unaudited condensed consolidated results of operations for each of the three and six months ended June 30, 2011 and 2010, which have been presented in its unaudited condensed consolidated financial statements. In order to assist the reader in understanding our business as a whole, certain metrics are presented for each of our segments.

*Liquidity and Capital Resources* an analysis of cash flows, off-balance sheet arrangements, stock repurchases and the impact of changes in interest rates on our business.

**EXECUTIVE SUMMARY**

The following is an executive summary of what Kforce believes are important results as of and during the six months ended June 30, 2011, which should be considered in the context of the additional discussions herein and in conjunction with its unaudited condensed consolidated financial statements. We believe such highlights are as follows:

Net service revenues for the six months ended June 30, 2011 increased 13.4% to \$536.4 million from \$472.8 million in the comparable period in 2010.

Flex revenues for the six months ended June 30, 2011 increased 13.0% to \$514.1 million from \$455.0 million in the comparable period in 2010.

Search fees for the six months ended June 30, 2011 increased 25.5% to \$22.3 million from \$17.8 million in the comparable period in 2010.

Flex gross profit margin for the three months ended June 30, 2011 decreased 60 basis points to 28.4% from 29.0% in the comparable period in 2010, primarily resulting from a combination of the compression between bill and pay rates and increased payroll taxes.

Selling, general and administrative ( SG&A ) expenses as a percentage of revenues for the six months ended June 30, 2011 decreased 90 basis points to 26.0% from 26.9% in the comparable period in 2010.



Total outstanding borrowings under the Credit Facility as of June 30, 2011 increased \$8.1 million to \$18.9 million from \$10.8 million as of December 31, 2010, which was primarily related to the repurchase of 0.9 million shares of common stock for \$13.3 million during the six months ended June 30, 2011.

Diluted earnings per share for the six months ended June 30, 2011 increased 52.6% to \$0.29 from \$0.19 in the comparable period in 2010.

#### **CRITICAL ACCOUNTING ESTIMATES**

Our unaudited condensed consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, estimates, assumptions and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note A, *Summary of Significant Accounting Policies*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1. Financial Statements. Please also refer to our annual report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 4, 2011 for a more detailed discussion of our critical accounting estimates.

---

**Table of Contents****NEW ACCOUNTING STANDARDS**

See the **New Accounting Standards** section within Note A, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Condensed Consolidated Financial Statements for a more detailed discussion.

**RESULTS OF OPERATIONS*****Three and Six Months Ended June 30, 2011 and 2010***

Net service revenues for the three and six months ended June 30, 2011 were \$274.0 million and \$536.4 million, respectively, which represent an increase of 11.3% and 13.4%, respectively, over the comparable periods in 2010. These increases were primarily due to our Tech (which represents nearly 55% of our net service revenues) and FA segments, which had year-over-year increases in net service revenues for the three months ended June 30, 2011 of 15.2 % and 26.1%, respectively, and 17.3% and 29.9%, respectively, for the six months ended June 30, 2011. For the three and six months ended June 30, 2011, net service revenues for HLS increased 2.9% and 3.6%, respectively, while net service revenues for our GS segment decreased 19.0% and 15.5%, respectively, over the comparable periods in 2010. During fiscal 2011, our GS segment has been adversely impacted by the United States ( U.S. ) Congress 's inability to pass the 2011 U.S. federal budget and its continuing to operate under a series of seven continuing resolutions thereby continuing funding at or near 2010 levels. We believe this has significantly delayed the contract procurement process and created uncertainty about the funding levels of various programs and agencies within the Federal Government. In addition, our GS segment has been adversely impacted by the Federal Government mandates to in-source certain positions that were previously occupied by contractors.

In addition, Flex gross profit margin decreased 60 basis points to 28.4% for the three months ended June 30, 2011 as compared to 29.0% for the comparable period in 2010, and decreased 50 basis points to 27.8% for the six months ended June 30, 2011 as compared to 28.3% for the comparable period in 2010. These decreases were primarily attributable to the increase in payroll taxes, particularly unemployment taxes, as well as the compression in the spread between our bill and pay rates. Flex gross profit margin increased sequentially 130 basis points for the three months ended June 30, 2011. This increase was primarily driven by lower payroll taxes, which are traditionally higher in the first quarter of each fiscal year. SG&A expenses as a percentage of net service revenues were 26.3% and 26.0% for the three and six months ended June 30, 2011, respectively, as compared to 26.9% for both the three and six months ended June 30, 2010.

From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which increased during the three months ended June 30, 2011 as compared to 2010 based on data published by the Bureau of Labor Statistics ( BLS ). While we believe the macro-employment picture continues to be relatively weak with the unemployment rate at 9.2% as of June 2011, temporary employment grew 7.3% year over year in June 2011. In addition, the penetration rate (the percentage of temporary staffing to total employment) has increased from its low of 1.3% in August 2009 to over 1.7% in June 2011. We believe that the penetration rate could surpass the prior peak of 2.0% achieved in the late 1990s. If the penetration rate of temporary staffing continues to increase, we believe that our Flex revenues can grow significantly even in a relatively modest growth macro-economic environment. Management remains optimistic about the growth prospects of the temporary staffing industry, the penetration rate and in particular our revenue portfolio.

Although there can be no assurance that historical trends will continue, Search activity and Flex gross margins historically decrease heading into the troughs of an economic cycle, increase after economic conditions have shown sustained improvement, and are the strongest during the peak of an economic cycle. Search revenue increased 23.5% and 25.5% for the three and six months ended June 30, 2011 as compared to the comparable periods in 2010. In addition, Search revenue increased 20.6% in the second quarter of 2011 as compared to the first quarter of 2011. While Search revenue is difficult to predict, we expect this growth trend may flatten in the near term.

Over the last few years, we have undertaken several significant initiatives including: (i) further developing and optimizing our National Recruiting Center ( NRC ) and Strategic Accounts teams in support of our field operations; (ii) restructuring both our back office and field operations under our Shared Services program which focuses on process improvement, centralization, technology infrastructure and outsourcing; (iii) upgrading our corporate systems (primarily our front-end and time collection systems) and (iv) making other technology investments designed to increase the performance of our field associates. We believe that these investments have increased our operating efficiency, enabled us to be more responsive to our clients and provided a better operating platform to support our expected future growth. We believe our field operations model, which allows us to deliver our service offerings in a disciplined and consistent manner across all geographies and business lines, as well as our highly centralized back office operations, are competitive advantages and keys to our future growth and profitability. We also believe that our diversified portfolio of service offerings, which are primarily in the U.S., will also be a key contributor to our long-term financial stability.



**Table of Contents**

**Net Service Revenues.** The following table sets forth, as a percentage of net service revenues, certain items in our unaudited condensed consolidated statements of operations for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Net Service Revenues by Segment:</b>				
Tech	56.4%	54.5%	55.5%	53.7%
FA	20.0	17.6	20.2	17.7
HLS	15.6	16.9	15.8	17.3
GS	8.0	11.0	8.5	11.3
Net service revenues	100.0%	100.0%	100.00%	100.00%
<b>Revenue by Time:</b>				
Flex	95.6%	96.0%	95.8%	96.2%
Search	4.4	4.0	4.2	3.8
Net service revenues	100.0%	100.0%	100.0%	100.0%
Gross profit	31.6%	31.9%	30.8%	31.0%
Selling, general and administrative expenses	26.3%	26.9%	26.0%	26.9%
Depreciation and amortization	1.2%	1.3%	1.2%	1.3%
Income before income taxes	4.0%	3.6%	3.5%	2.7%
Net income	2.5%	2.1%	2.2%	1.7%

The following table details net service revenues for Flex and Search by segment and changes from the prior period for the three and six months ended June 30:

<i>(in \$000 s)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
<b>Tech</b>						
Flex	\$ 149,997	15.4%	\$ 129,961	\$ 289,410	17.4%	\$ 246,427
Search	4,537	9.9%	4,130	8,304	13.1%	7,340
Total Tech	\$ 154,534	15.2%	\$ 134,091	\$ 297,714	17.3%	\$ 253,767
<b>FA</b>						
Flex	\$ 47,522	24.6%	\$ 38,152	\$ 95,387	29.1%	\$ 73,882
Search	7,252	37.3%	5,282	13,219	36.3%	9,695
Total FA	\$ 54,774	26.1%	\$ 43,434	\$ 108,606	29.9%	\$ 83,577
<b>HLS</b>						
Flex	\$ 42,343	3.1%	\$ 41,066	\$ 84,001	3.6%	\$ 81,095
Search	392	(13.8)%	455	757	4.4%	725
Total HLS	\$ 42,735	2.9%	\$ 41,521	\$ 84,758	3.6%	\$ 81,820

Edgar Filing: KFORCE INC - Form 10-Q

GS						
Flex	\$ 21,946	(19.0)%	\$ 27,091	\$ 45,299	(15.5)%	\$ 53,629
Search						
Total GS	\$ 21,946	(19.0)%	\$ 27,091	\$ 45,299	(15.5)%	\$ 53,629
Total Flex	\$ 261,808	10.8%	\$ 236,270	\$ 514,097	13.0%	\$ 455,033
Total Search	12,181	23.5%	9,867	22,280	25.5%	17,760
Total Revenue	\$ 273,989	11.3%	\$ 246,137	\$ 536,377	13.4%	\$ 472,793

**Table of Contents**

**Flex Revenues.** The primary drivers of Flex revenues are the number of consultant hours worked, the consultant bill rate per hour and, to a limited extent, the amount of billable expenses incurred by Kforce. Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers' businesses. For each of the three months ended June 30, 2011 and 2010, there were 64 billing days.

Kforce experienced Flex revenue increases for the three and six months ended June 30, 2011 as compared to the comparable periods in 2010 across all segments except for GS, which decreased 19.0% and 15.5%, respectively.

Flex revenues for our largest segment, Tech, have been strong compared to the beginning stages of previous economic recoveries, which we believe is primarily a result of candidate skill sets that are in demand, our great people and our operating model. We believe that our operating model allows us to deliver our service offerings in a disciplined and consistent manner across all geographies and business lines. This operating model includes our NRC, which we believe has been highly effective in increasing the quality and speed of delivery of services to our clients, particularly our Strategic Accounts. We also believe that unlike the late 1990s and early 2000s, our clients generally did not over-hire during the most recent economic expansion. We also do not believe that an exaggerated technology bubble similar to that which occurred prior to the economic downturn in the early 2000s, which decreased demand for our Tech segment, developed prior to the most recent downturn. We expect to see continued growth for the remainder of 2011 within our Tech segment on a sequential basis and over comparable periods in 2010.

Our FA segment experienced a year-over-year increase in net service revenues of 26.1% and 29.9% during the three and six months ended June 30, 2011, respectively. According to a Staffing Industry Analyst (SIA) report, the overall finance and accounting segment is expected to experience accelerated growth of 8% in 2011 and 2012. Consistent with Tech, we believe that the success of our FA segment has been enabled by our NRC, which we believe has been particularly effective in meeting the demand within the mortgage, refinancing and foreclosure space which experienced significant growth in 2010 but slowed in the three months ended June 30, 2011. We expect to see continued growth for the remainder of 2011 within our FA segment over comparable periods in 2010.

Net service revenues for our HLS segment increased 2.9% and 3.6% for the three and six months ended June 30, 2011, respectively, compared to 2010. Our Clinical Research business, which comprises approximately 60% of HLS segment revenues, experienced a 6.2% and 5.0% decrease in net service revenues during the three and six months ended June 30, 2011 compared to 2010, respectively, which we believe reflects the cost-cutting initiatives and structural changes in the outsourcing strategies of large pharmaceutical companies and delays in hiring activity resulting from several mergers within this sector. We expect our Clinical Research business to be relatively flat for the remainder of 2011 but we believe in the long-term growth prospects of this business. Our Health Information Management (HIM) business consists primarily of professionals providing medical coding and transcription services to hospitals and other healthcare facilities. Net service revenues within HIM increased 21.2% and 21.0% for the three and six months ended June 30, 2011 compared to 2010, respectively, as hospital census and spending trends continued to increase. We expect to see continued growth for the remainder of 2011 within HIM over comparable periods in 2010.

Our GS segment experienced declining results for the three and six months ended June 30, 2011 compared to 2010. We believe this decline is primarily a result of the political landscape, including the U.S. Congress's inability to pass the 2011 U.S. federal budget and its continuing to operate under a series of seven continuing resolutions thereby continuing funding at or near 2010 levels, and macro-economic environment. Since the change in the administration took place, our GS segment has been adversely impacted by delays in the timing of project awards, uncertainty about the funding levels of various programs and agencies within the Federal Government and a continuing trend by the Federal Government to in-source certain functions in an attempt to reduce expenditures. Further impacting 2011, the Continuing Resolution Authority (CRA) for the Federal Government's budget limits government agencies, unless specifically authorized otherwise in the CRA, to only spend up to 75% of the Federal Government's previous fiscal year budget. The majority of our GS contracts contain an initial one-year term with four option years, which are typically exercised. At the end of this term, the contract award typically goes through a competitive bidding process to retain the contract. During 2011 and 2010, management has focused its efforts on business development activities bringing in new leadership at certain positions and repositioned itself to focus on certain targeted federal agencies. Management cannot predict the outcome of efforts to reduce federal spending and whether these efforts will materially impact the budgets of federal agencies that are clients of our GS segment. We expect net service revenues within our GS segment to be relatively flat for the remainder of 2011. Despite the current challenges, we continue to believe in the long-term prospects of our GS segment.

**Table of Contents**

The following table details total Flex hours for each segment and percentage changes over the prior period for the three and six months ended June 30:

<i>(in 000 s)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Tech	2,403	16.4%	2,065	4,676	19.5%	3,914
FA	1,393	20.4	1,157	2,808	24.9	2,249
HLS	522	6.3	491	1,052	8.0	974
GS	263	(12.6)	301	518	(11.8)	587
Total hours	4,581	14.1%	4,014	9,054	17.2%	7,724

The changes in billable expenses, which are included as a component of net services revenues, are primarily attributable to increases or decreases in project work. The following table details total Flex billable expenses for each segment and percentage changes over the prior period for the three and six months ended June 30:

<i>(in \$000 s)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Tech	\$ 1,055	(23.2)%	\$ 1,374	\$ 1,925	(19.1)%	\$ 2,380
FA	171	222.6	53	330	182.1	117
HLS	3,715	(0.4)	3,731	7,262	5.6	6,878
GS	264	101.5	131	486	237.5	144
Total billable expenses	\$ 5,205	(1.6)%	\$ 5,289	\$ 10,003	5.1%	\$ 9,519

**Search Fees.** The primary drivers of Search fees are the number of permanent placements and the average placement fee. Our GS segment does not make permanent placements.

As previously mentioned, Search activity historically decreases heading into the troughs of an economic cycle, increases after economic conditions have shown sustained improvement, and is the strongest during the peak of an economic cycle. We cannot provide any assurances, however, that historical trends will continue. Search revenue increased 23.5% and 25.5% during the three and six months ended June 30, 2011 as compared to 2010, respectively. We believe the increase over the prior year reflects clients who are rebuilding staff after significant reductions during the most recent economic recession. We expect this trend may subside in the near term. Over the last several years, Kforce has made a concerted effort to de-emphasize the contribution of Search fees to overall net service revenues, which is primarily a result of the highly volatile nature of the Search business and the costs that must be invested to establish and maintain the workforce.

Total placements for each segment and percentage changes over the prior period were as follows for the three and six months ended June 30:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Tech	313	13.8%	275	579	16.0%	499
FA	594	31.1	453	1,051	23.6	850
HLS	26	13.0	23	44	4.8	42
Total placements	933	24.2%	751	1,674	20.3%	1,391





**Table of Contents**

The average placement fee for each segment and percentage changes over the prior period were as follows for the three and six months ended June 30:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Tech	\$ 14,488	(3.3)%	\$ 14,990	\$ 14,340	(2.5)%	\$ 14,708
FA	12,218	4.7	11,665	12,581	10.3	11,404
HLS	15,004	(24.4)	19,858	17,150	(0.8)	17,295
Total average placement fee	\$ 13,058	(0.6)%	\$ 13,134	\$ 13,310	4.3%	\$ 12,767

**Gross Profit.** Gross profit on Flex billings is determined by deducting the direct cost of services (primarily flexible personnel payroll wages, payroll taxes, payroll-related insurance, and subcontract costs) from net Flex service revenues. In addition, consistent with industry practices, gross profit dollars from Search fees are equal to revenues, because there are generally no direct costs associated with such revenues.

The gross profit percentage for each segment and percentage changes over the prior period were as follows for the three and six months ended June 30:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Tech	29.2%	(2.0)%	29.8%	28.7%	(1.4)%	29.1%
FA	38.8%	1.3	38.3%	37.1%	0.5	36.9%
HLS	31.0%	(1.3)	31.4%	30.3%	(1.3)	30.7%
GS	31.7%	(2.8)	32.6%	30.5%	(2.6)	31.3%
Total gross profit percentage	31.6%	(0.9)%	31.9%	30.8%	(0.6)%	31.0%

Changes in the amount of Search fees as a percentage of total revenues can significantly impact total gross profit percentage because Search revenue contributes 100% to gross profit, as described previously. Given this dynamic, Kforce monitors the gross profit percentage as a percentage of Flex revenues, which is referred to as the Flex gross profit percentage. This provides management with the necessary insight into the other drivers of total gross profit percentage such as changes in volume evidenced by changes in hours billed for Flex and changes in the spread between bill rate and pay rate for Flex.

The net increase in Search gross profit for the three months ended June 30, 2011, compared to the same period in 2010, was \$2.3 million, composed of a \$2.4 million increase in volume and a \$0.1 million decrease in rate. The increase in Search gross profit for the six months ended June 30, 2011, compared to the same period in 2010, was \$4.5 million, composed of a \$3.7 million increase in volume and a \$0.8 million increase in rate.

The following table presents, for each segment, the Flex gross profit percentage and percentage change over the prior period for the three and six months ended June 30:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Tech	27.1%	(1.5)%	27.5%	26.6%	(1.5)%	27.0%
FA	29.5%	(0.7)	29.7%	28.4%	(0.7)	28.6%
HLS	30.4%	(0.7)	30.6%	29.7%	(1.0)	30.0%
GS	31.7%	(2.8)	32.6%	30.5%	(2.6)	31.3%

Edgar Filing: KFORCE INC - Form 10-Q

Total Flex gross profit percentage	28.4%	(2.1)%	29.0%	27.8%	(1.8)%	28.3%
------------------------------------	-------	--------	-------	-------	--------	-------

**Table of Contents**

The net increase in Flex gross profit for the three months ended June 30, 2011, compared to the same period in 2010, was \$5.9 million, composed of a \$9.4 million increase in volume and a \$3.5 million decrease in rate. The net increase in Flex gross profit for the six months ended June 30, 2011, compared to the same period in 2010, was \$14.1 million, composed of a \$21.6 million increase in volume and a \$7.5 million decrease in rate.

The Flex gross profit percentage was negatively impacted during the three and six months ended June 30, 2011 by payroll taxes, particularly the increase in unemployment taxes in 2011 as compared to 2010, which are highest in the first quarter of the year because employees have not yet earned sufficient wages to exceed the basis on which taxes are payable, have risen in recent years and may continue to rise and negatively impact Flex gross profit. Also negatively impacting Flex gross profit has been the growth seen in our Strategic Accounts, which traditionally have a lower gross profit profile. A significant continued focus for Kforce is on optimizing the spread between bill rates and pay rates, which will focus on providing our associates with tools, economic knowledge and defined programs to drive improvement in the effectiveness of our pricing strategy around the staffing services we provide. We believe this strategy will serve to balance the desire for optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, our consultants and Kforce. While we have seen improvements in the bill rates thus far in 2011, we have also seen reasonably equivalent increases in the pay rates. As a result, we have yet to see the expected benefits from this strategy, which will be a continuing focus for Kforce in 2011 and beyond.

Flex gross profit margin increased 130 basis points to 28.4% for the three months ended June 30, 2011 on a sequential basis. This increase was primarily driven by lower payroll taxes, which are traditionally higher in the first quarter of each fiscal year because of the disproportionate impact of payroll taxes in the first quarter, and improvements in the spread between our bill and pay rates in our FA and HLS segments. An increase in the spread between bill and pay rates is typically seen as economic growth reemerges and the demand for staffing increases.

**Selling, General and Administrative Expenses ( SG&A ).** For the three and six months ended June 30, 2011, total commissions, compensation, payroll taxes, and benefit costs as a percentage of SG&A represented 86.3% and 86.5%, respectively, as compared to 83.4% and 82.7% in the comparable periods in 2010. Commissions and related payroll taxes and benefit costs are variable costs driven primarily by revenue and gross profit levels, and associated performance. Therefore, as gross profit levels change, these expenses would also generally be anticipated to change but remain relatively consistent as a percentage of revenues.

The following table presents these components of SG&A along with an other caption, which includes bad debt expense, lease expense, professional fees, travel, telephone, computer and certain other expenses, as an absolute amount and as a percentage of total net service revenues for the three and six months ended June 30:

<i>(in \$000 s)</i>	2011	% of Revenue	2010	% of Revenue
<i>Three Months Ended June 30:</i>				
Compensation, commissions, payroll taxes and benefits costs	\$ 62,285	22.7%	\$ 55,256	22.4%
Other	9,878	3.6	10,966	4.5
Total SG&A	\$ 72,163	26.3%	\$ 66,222	26.9%
<i>Six Months Ended June 30:</i>				
Compensation, commissions, payroll taxes and benefits costs	\$ 120,619	22.5%	\$ 105,176	22.2%
Other	18,767	3.5	21,986	4.7
Total SG&A	\$ 139,386	26.0%	\$ 127,162	26.9%

---

**Table of Contents**

SG&A as a percentage of net service revenues decreased 60 and 90 basis points for the three and six months ended June 30, 2011, respectively, as compared to the comparable periods in 2010.

For the three months ended June 30, 2011, the decrease was primarily attributable to the following:

Decrease in commission expense of 0.3% of net service revenues, which was primarily attributable to the optimization of the compensation plan for our commissionable associates.

Decrease in lease expense of 0.3% of net service revenues, which was primarily attributable to the acquisition of our corporate headquarters in May 2010.

Decrease in professional fees expense of 0.4% of net service revenues, which was primarily attributable to management's continued focus on controlling expenses.

Increase in compensation and benefits cost of 0.6% of net service revenues, which was primarily attributable to: (i) an increase in stock-based compensation expense resulting primarily from an increase in the number of outstanding equity grants and (ii) an increase in our health insurance costs attributable to certain large claims.

For the six months ended June 30, 2011, the decrease was primarily attributable to the following:

Decrease in commission expense of 0.4% of net service revenues, which was primarily attributable to the optimization of the compensation plan for our commissionable associates.

Decrease in lease expense of 0.4% of net service revenues, which was primarily attributable to the acquisition of our corporate headquarters in May 2010.

Decrease in professional fees expense of 0.4% of net service revenues, which was primarily attributable to management's continued focus on controlling expenses.

Increase in compensation and benefits cost of 0.7% of net service revenues, which was primarily attributable to: (i) an increase in stock-based compensation expense resulting primarily from an increase in the number of outstanding equity grants and (ii) an increase in our health insurance costs attributable to certain large claims.

During fiscal 2011, our GS segment has been adversely impacted by the U.S. Congress's inability to pass the 2011 U.S. federal budget and its continuing to operate under a series of seven continuing resolutions thereby continuing funding at or near 2010 levels. We believe this has significantly delayed the contract procurement process and created uncertainty about the funding levels of various programs and agencies within the Federal Government. In addition, our GS reporting unit has been impacted by the Federal Government mandates to in-source certain positions that were previously occupied by contractors and the Federal Government's seemingly anti-contractor sentiment. As a result, Kforce performed an interim goodwill impairment analysis which resulted in the fair value of the GS reporting unit exceeding the carrying amount by 3.4%. A deterioration in the assumptions discussed in Note E, *Goodwill and Other Intangible Assets*, of the Notes to the Unaudited Condensed Consolidated Financial Statements could result in a material impairment charge. As of both June 30, 2011 and December 31, 2010, goodwill allocated to the GS reporting unit was \$102.6 million.

**Depreciation and Amortization.** The following table presents depreciation and amortization expense and percentage changes over the prior period by major category for the three and six months ended June 30:

Edgar Filing: KFORCE INC - Form 10-Q

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	Increase (Decrease)	2010	2011	Increase (Decrease)	2010
Fixed asset depreciation	\$ 1,115	29.7%	\$ 860	\$ 2,242	39.3%	\$ 1,610
Capital lease asset depreciation	408	(12.6)	467	810	(12.8)	929
Capitalized software amortization	1,421	14.8	1,238	2,868	21.9	2,353
Intangible asset amortization	267	(53.3)	572	627	(48.6)	1,221
<b>Total depreciation and amortization</b>	<b>\$ 3,211</b>	<b>2.4%</b>	<b>\$ 3,137</b>	<b>\$ 6,547</b>	<b>7.1%</b>	<b>\$ 6,113</b>

**Table of Contents**

The \$0.3 and \$0.6 million increase in fixed asset depreciation during the three and six months ended June 30, 2011 compared to 2010, respectively, is a result of the acquisition of Kforce's corporate headquarters in May 2010. The \$0.2 and \$0.5 million increase in capitalized software amortization during the three and six months ended June 30, 2011 compared to 2010, respectively, is a result of the significant technology investments made by Kforce in 2010. The \$0.3 and \$0.6 million decrease in intangible asset amortization during the three and six months ended June 30, 2011 compared to 2010, respectively, is the result of certain intangibles assets acquired in the 2008 acquisition of RDI Systems, Inc. becoming fully amortized.

**Other Expense, Net.** Other expense, net was \$0.3 million for both the three months ended June 30, 2011 and 2010, respectively, and \$0.7 and \$0.6 million for the six months ended June 30, 2011 and 2010, respectively. Other expense, net consisted primarily of interest expense related to outstanding borrowings under our Credit Facility.

**Income Tax Expense.** Income tax expense as a percentage of income before taxes (our effective rate) for the six months ended June 30, 2011 and 2010 was 37.4% and 37.8%, respectively. The decrease in Kforce's effective rate for the six months ended June 30, 2011 is primarily a result of an increase in forecasted pre-tax net income for 2011.

**Adjusted EBITDA.** Adjusted EBITDA, a non-GAAP financial measure, is defined as net income before discontinued operations, non-cash impairment charges, interest, income taxes, depreciation and amortization, and amortization of stock-based compensation expense. Adjusted EBITDA should not be considered a measure of financial performance under GAAP. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our past and future financial performance, and this presentation should not be construed as an inference by us that our future results will be unaffected by those items excluded from Adjusted EBITDA. Adjusted EBITDA is a key measure used by management to evaluate its operations including its ability to generate cash flows and, consequently, management believes this is useful information to investors. The measure should not be considered in isolation or as an alternative to net income, cash flows or other financial statement information presented in the unaudited condensed consolidated financial statements as indicators of financial performance or liquidity. The measure is not determined in accordance with GAAP and is thus susceptible to varying calculations. Also, Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

Some of the items that are excluded also impacted certain balance sheet assets, resulting in all or a portion of an asset being written off without a corresponding recovery of cash we may have previously spent with respect to the asset. In addition, although we excluded stock-based compensation expense (which we expect to continue to incur in the future) because it is a non-cash expense, the associated stock issued may result in an increase in our outstanding shares of stock, which may result in the dilution of our stockholder ownership interest. We encourage you to evaluate these items and the potential risks of excluding such items when analyzing our financial position.

The following table presents Adjusted EBITDA results and includes a reconciliation of Adjusted EBITDA to net income for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	Per Share	2010	Per Share	2011	Per Share	2010	Per Share
Net income	\$ 6,785	\$ 0.17	\$ 5,144	\$ 0.13	\$ 11,625	\$ 0.29	\$ 7,852	\$ 0.19
Depreciation and amortization	3,211	0.08	3,137	0.08	6,547	0.16	6,113	0.15
Amortization of RS and PARS	2,837	0.07	1,511	0.03	5,658	0.14	2,906	0.07
Interest expense and other	289	0.01	319	0.01	582	0.01	667	0.02
Income tax expense	4,154	0.10	3,623	0.09	6,952	0.17	4,770	0.12
Adjusted EBITDA	\$ 17,276	\$ 0.43	\$ 13,734	\$ 0.34	\$ 31,364	\$ 0.77	\$ 22,308	\$ 0.55

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

To meet our capital and liquidity requirements, we primarily rely on operating cash flow as well as borrowings under our Credit Facility. Kforce had \$72.0 million and \$64.9 million in working capital as of June 30, 2011 and December 31, 2010, respectively. Also, Kforce's current ratio (current assets divided by current liabilities) was 1.7 and 1.6 as of June 30, 2011 and December 31, 2010, respectively.

The accompanying Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 provide a more detailed description of our cash flows. Kforce is principally focused on achieving the appropriate balance in the following areas of cash flow: (i) achieving positive cash flow from operating activities; (ii) reducing the outstanding balance of our Credit Facility; (iii) repurchasing our common stock; (iv) investing in our infrastructure to allow sustainable growth via capital expenditures; and (v) making strategic acquisitions.

We believe that existing cash and cash equivalents, cash flow from operations, and available borrowings under our Credit Facility will be adequate to meet the capital expenditure and working capital requirements of our operations for at least the next 12 months. However, significant deterioration in the economic environment or market conditions, among other things, could negatively impact operating results and liquidity as well as the ability of our lenders to fund borrowings. There is no assurance that: (i) our lenders will be able to fund our borrowings or (ii) if operations were to deteriorate and additional financing were to become necessary, we would be able to obtain financing in amounts sufficient to meet operating requirements or at terms which are satisfactory and which allow us to remain competitive.

The following table presents a summary of our net cash flows from operating, investing and financing activities for the six months ended June 30:

	2011	2010
Cash provided by (used in):		
Operating activities	\$ 10,878	\$ (2,830)
Investing activities	(4,618)	(34,707)
Financing activities	(6,630)	35,135
Decrease in cash and cash equivalents	\$ (370)	\$ (2,402)

**Operating Activities**

The significant variations in cash provided by (used in) operating activities and net income are principally related to adjustments to net income for certain non-cash charges such as depreciation and amortization expense and stock-based compensation. These adjustments are more fully detailed in our unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010. Our largest source of operating cash flows is the collection of trade receivables and our largest use of operating cash flows is the payment of our employee and consultant populations' compensation, which includes base salary, commissions and bonuses.

**Investing Activities**

Capital expenditures for the six months ended June 30, 2011 and 2010 were \$2.9 million and \$32.6 million, respectively, which exclude equipment acquired under capital leases. The decrease in cash used for capital expenditures during the six months ended June 30, 2011 as compared to 2010 was primarily the result of the acquisition of our corporate headquarters in the second quarter of 2010 for a total purchase price, including acquisition-related costs, of \$28.9 million.

We expect to continue to invest in our infrastructure in order to support the expected future growth in our business, as we believe, although we cannot provide any assurances, we are currently in the beginning stage of the next positive economic cycle. We believe that these investments will, among other things, improve the performance and profitability of our associates and increase: (i) the efficiency and effectiveness of our delivery activities; (ii) the satisfaction of our customers; and (iii) the effectiveness of our incentive compensation programs. Kforce believes it has sufficient cash and availability under its Credit Facility to make any necessary capital expenditures in the foreseeable future, although significant deterioration in the economic environment or market conditions could negatively impact the ability of our lenders to fund borrowings.

**Financing Activities**

## Edgar Filing: KFORCE INC - Form 10-Q

During the six months ended June 30, 2011, we repurchased 0.9 million shares of our common stock in the open market at a total cost of \$13.3 million.



---

**Table of Contents***Credit Facility*

On October 2, 2006, Kforce entered into the Credit Facility. In addition to Bank of America, N.A., the group of lenders under our Credit Facility also includes PNC Bank, N.A., CIT Group Inc. and Wachovia Bank, N.A. Kforce's maximum borrowings under the Credit Facility are \$140.0 million, which includes a revolving loan tranche of up to \$125.0 million (the Revolving Loan Amount) and a \$15.0 million sub-limit for letters of credit. On September 15, 2009, and effective as of September 16, 2009, CIT assigned rights and obligations under the Credit Facility together with a corresponding portion of each of its outstanding committed loans and letter of credit obligations in an amount equal to \$20.0 million to Wachovia. After giving effect to this assignment, the commitments of Wachovia and CIT under the Credit Facility are now \$50.0 million and \$15.0 million, respectively.

Borrowings under the Credit Facility are limited to 85% of eligible accounts receivable, of which unbilled receivables can be no more than 40% of billed receivables, less certain minimum availability reserves, and bear interest at a rate of LIBOR plus 1.25% or Prime. Fluctuations in the ratio of unbilled to billed receivable could result in material changes to availability from time to time. Letters of credit issued under the Credit Facility require Kforce to pay a fronting fee equal to 0.125% of the amount of each letter of credit issued plus 1.25% per annum of the total amount of letters of credit outstanding. To the extent that Kforce has unused availability under the Credit Facility, an unused line fee is required to be paid equal to 0.25% of the average unused balance on a monthly basis. Borrowings under the Credit Facility are principally secured by our accounts receivable but are also secured by substantially all of the assets of Kforce. Under the Credit Facility, Kforce is required to maintain a minimum fixed charge coverage ratio in the event that it is unable to maintain minimum availability under the Credit Facility of \$15.0 million. As of June 30, 2011, Kforce had availability under the Credit Facility in excess of the minimum requirement; therefore, the minimum fixed charge coverage ratio of 1.25 to 1.00 was not applicable. Kforce believes that it will be able to maintain the minimum availability requirement; however, in the event that Kforce is unable to do so, Kforce could fail the fixed charge coverage ratio, which would constitute an event of default.

The Credit Facility expires in November 2011. Kforce is currently in negotiations with a prospective lender on the material terms of a new credit facility and has executed an agreement with such lender to permit the commencement of standard due diligence procedures related to a new credit facility. As a result of the expiration date of the current Credit Facility and the lack of a definitive refinancing event occurring, we continue to classify outstanding borrowings under the Credit Facility as a current liability in our unaudited condensed consolidated financial statements as of June 30, 2011. Kforce cannot provide any assurance that it will be able to secure alternative financing prior to the expiration of the existing Credit Facility; however, we currently expect to have a replacement facility in place during the third quarter of 2011. Kforce believes that cash generated from operating activities would be sufficient to fund operations if such an event occurs.

As of June 30, 2011, there was \$18.9 million outstanding and \$87.6 million available under the Credit Facility. During the three months ended June 30, 2011, maximum outstanding borrowings under the Credit Facility were \$32.8 million. As of August 1, 2011, there was \$23.7 million outstanding and \$80.4 million available under the Credit Facility.

**Off-Balance Sheet Arrangements**

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At June 30, 2011, Kforce had letters of credit outstanding for workers compensation and other insurance coverage totaling \$2.7 million and for facility lease deposits totaling \$0.2 million. Kforce does not have any additional off-balance sheet arrangements that have had, or are expected to have, a material effect on our unaudited condensed consolidated financial statements.

**Stock Repurchases**

As of December 31, 2009, our Board of Directors had authorized \$75.0 million of repurchases of our common stock. As of December 31, 2010, \$68.9 million remained available for future repurchases. During the six months ended June 30, 2011, Kforce repurchased approximately 1.0 million shares of common stock attributable to shares repurchased in the open market and shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock awards and the exercise of stock options and SARs at a total cost of approximately \$14.9 million. As of June 30, 2011, approximately \$54.0 million remains available for future repurchases.

**Registration Statement on Form S-3**

On March 18, 2009, Kforce filed a Registration Statement on Form S-3 that allows the issuance of up to \$250 million of common stock and other equity, debt and financial instruments for general corporate purposes which may include capital expenditures, the repayment or refinancing of debt, investments in our subsidiaries, working capital, or the financing of possible acquisitions or business opportunities. Such filings are referred to as Shelf Registrations. No issuance of securities has been made under this registration statement as of August 1, 2011. There is no

## Edgar Filing: KFORCE INC - Form 10-Q

assurance that the existence of the Shelf Registration will assist Kforce in registering its securities in connection with future efforts to raise capital or for other purposes.

---

## **Table of Contents**

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk.***

In addition to the risks inherent in its operations, Kforce is exposed to certain market risks, primarily changes in interest rates. The sensitivity analysis presented below for our Credit Facility is based on a 10% change in interest rates. This change is a hypothetical scenario and is used to calibrate potential risk and does not represent our view of future market changes.

As of June 30, 2011, we had \$18.9 million outstanding under our Credit Facility. Our weighted average effective interest rate on our Credit Facility was 2.04% at June 30, 2011. A hypothetical 10% increase in interest rates in effect at June 30, 2011 would not have a significant effect on Kforce's annual interest expense.

We do not believe that we have a material exposure to fluctuations in foreign currencies because our international operations represented approximately 2% of net service revenues for the six months ended June 30, 2010, and because our international operations' functional currency is the U.S. Dollar. However, we will continue to assess the impact that currency fluctuations could have on our operations going forward.

### **Item 4. *Controls and Procedures.***

#### **Evaluation of Disclosure Controls and Procedures**

As of June 30, 2011, we carried out an evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act (the "Evaluation"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15 and 15d-15 under the Exchange Act ("Disclosure Controls"). Based on the Evaluation, our CEO and CFO concluded that our Disclosure Controls are effective in timely alerting them to material information required to be included in our periodic SEC reports.

#### **Changes in Internal Control over Financial Reporting**

Management has evaluated, with the participation of our CEO and CFO, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

#### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### **CEO and CFO Certifications**

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This Item of this report, which you are currently reading, is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

---

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

As disclosed in our previous filings with the SEC, Kforce was a defendant in a California class action lawsuit alleging misclassification of California Account Managers and seeking unspecified damages. The tentative settlement referred to in our Annual Report on Form 10-K for the year ended December 31, 2010 was approved by the Court during the three months ended June 30, 2011 in the amount of \$2.5 million, which has been recorded within accounts payable and other accrued liabilities in the accompanying unaudited condensed consolidated balance sheets. The settlement is expected to be paid during the year ended December 31, 2011.

On June 6, 2011, the Chicago District Office of the Equal Employment Opportunity Commission ( EEOC ) issued a Determination on a Charge of Discrimination, brought by an individual in 2006, that reasonable cause exists to believe that Kforce discriminated against a class of individuals because of their age by harassing and terminating them and discriminated against another class of individuals because of their age by denying them employment, in violation of the Age Discrimination in Employment Act of 1967. Kforce believes it has meritorious defenses to the EEOC s allegations. The EEOC has invited Kforce to participate in conciliation efforts, and Kforce has accepted the invitation. At this stage of the matter, it is not feasible to predict the outcome or a range of loss, should a loss occur, and accordingly, no amounts have been provided in the accompanying unaudited condensed consolidated financial statements.

Otherwise, no new legal proceedings that are likely to have a material adverse impact on Kforce, and no material developments with respect to existing legal proceedings, occurred during the six months ended June 30, 2011.

**Item 1A. Risk Factors.**

Set forth below are the material changes and updates from, and should be read in conjunction with, the risk factors previously disclosed in our Annual Report on Form 10-K for our year ended December 31, 2010.

***U.S. government spending and priorities could change in a manner that adversely affects our future revenue and limits our growth prospects.***

A portion of our business depends upon continued U.S. government expenditures on defense, intelligence, and civil programs for which we provide support. These expenditures have not remained constant over time, have been reduced in certain periods and, recently, have been affected by the U.S. government s efforts to improve efficiency and reduce costs affecting federal government programs generally. Our business, prospects, financial condition, or operating results could be materially harmed, among other causes, by the following:

U.S. government shutdowns due to a failure by elected officials to fund the government and other potential delays in the appropriations process;

a credit downgrade of U.S. government obligations;

delays in the payment of our invoices by government payment offices; and

budgetary constraints affecting U.S. government spending generally, or specific agencies in particular, changes in available funding, a shift in expenditures away from agencies or programs that we support.

***Our collection, use and retention of personal information and personal health information create risks that may harm our business.***

In the ordinary course of our business, we collect and retain personal information of our associates and flexible employees and their dependants, as well as applicants, including, without limitation, full names, social security numbers, birth dates, and payroll-related information. We also

## Edgar Filing: KFORCE INC - Form 10-Q

have access to, receive and use personal health information of patients and drug trial subjects in the ordinary course of our Health and Life Sciences businesses. We use commercially available information security technologies to protect such information in digital format. We also use security and business controls to limit access to such information. However, employees or third parties may be able to circumvent these measures and acquire or misuse such information, resulting in breaches of privacy, and errors in the storage, use or transmission of such information may result in breaches of privacy. Privacy breaches may require notification and other remedies, which can be costly, and which may have other serious adverse consequences for our business, including regulatory penalties and fines, claims for breach of contract, claims for damages, adverse publicity, reduced demand for our services by clients and/or flex employment candidates, harm to our reputation, and regulatory oversight by state or federal agencies.

The possession and use of personal information and data in conducting our business subjects us to legislative and regulatory burdens. We may be required to incur significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table presents information with respect to our repurchases of Kforce common stock during the six months ended June 30, 2011:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2011 to April 30, 2011		\$		\$ 59,610,485
May 1, 2011 to May 31, 2011	127,316	\$ 14.40	127,316	\$ 57,777,738
June 1, 2011 to June 30, 2011	299,675	\$ 12.64	299,675	\$ 53,991,079
Total	426,991	\$ 13.16	426,991	\$ 53,991,079

- (1) All of the shares reported above as purchased are attributable to shares repurchased in the open market and shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock.
- (2) All of the shares reported above as purchased are attributable to shares repurchased in the open market and shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock and the exercise of stock options.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Reserved.**

None.

**Item 5. Other Information.**

None.

**Table of Contents**

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Articles of Incorporation. (1)
3.1a	Articles of Amendment to Articles of Incorporation. (2)
3.1b	Articles of Amendment to Articles of Incorporation. (2)
3.1c	Articles of Amendment to Articles of Incorporation. (2)
3.1d	Articles of Amendment to Articles of Incorporation. (3)
3.1e	Articles of Amendment to Articles of Incorporation. (4)
3.2	Amended & Restated Bylaws. (5)
10.1	Employment Agreement, dated as of June 1, 2011, between the Registrant and Richard M. Cocchiaro.
31.1	Certification by the Chief Executive Officer of Kforce Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer of Kforce Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer of Kforce Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer of Kforce Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	Part I, Item 1 of this Form 10-Q formatted in XBRL. (6)

- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File 33-91738) filed April 28, 1995.
- (2) Incorporated by reference to the Registrant's Form S-4/A (File No. 333-111566) filed February 9, 2004, as amended.
- (3) Incorporated by reference to the Registrant's Form 8-K (File No. 000-26058) filed May 17, 2000.
- (4) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-26058) filed March 29, 2002.
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed February 7, 2007.
- (6) The interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

**Table of Contents**

**SIGNATURES**

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

Kforce Inc.  
(Registrant)

Date: August 4, 2011

By: /s/ JOSEPH J. LIBERATORE  
Joseph J. Liberatore  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: August 4, 2011

By: /s/ JEFFREY B. HACKMAN  
Jeffrey B. Hackman  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)