

KFORCE INC  
Form 10-Q  
August 04, 2010  
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**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, 2010

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)

**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 2, 2010, was 39,526,720.

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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, contain 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, financing needs or plans, plans relating to services of Kforce, estimates concerning the effects of litigation or other disputes, 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 describe 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)*

|  | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|--|---------------------------|-----------------|-------------------------|-----------------|
|  | <b>June 30,</b>           | <b>June 30,</b> | <b>June 30,</b>         | <b>June 30,</b> |
|  | <b>2010</b>               | <b>2009</b>     | <b>2010</b>             | <b>2009</b>     |
| Flexible billings  | \$ 236,270                | \$ 219,326      | \$ 455,033              | \$ 442,813      |
| Search fees  | 9,867                     | 6,626           | 17,760                  | 14,448          |
| Net service revenues   | 246,137                   | 225,952         | 472,793                 | 457,261         |
| Direct costs of services                                     | 167,742                   | 154,331         | 326,253                 | 313,419         |
| Gross profit   | 78,395                    | 71,621          | 146,540                 | 143,842         |
| Selling, general and administrative expenses                 | 66,222                    | 62,084          | 127,162                 | 125,494         |
| Depreciation and amortization                                | 3,137                     | 2,885           | 6,113                   | 5,925           |
| Income from operations                                       | 9,036                     | 6,652           | 13,265                  | 12,423          |
| Other expense, net   | 269                       | 275             | 643                     | 624             |
| Income before income taxes                                   | 8,767                     | 6,377           | 12,622                  | 11,799          |
| Income tax expense   | 3,623                     | 2,470           | 4,770                   | 4,731           |
| Net income   | 5,144                     | 3,907           | 7,852                   | 7,068           |
| Other comprehensive income (loss):                           |                           |                 |                         |                 |
| Defined benefit pension and postretirement plans, net of tax | 6                         | 6               | 31                      | (265)           |
| Comprehensive income   | \$ 5,150                  | \$ 3,913        | \$ 7,883                | \$ 6,803        |
| Earnings per share basic                                     | \$ 0.13                   | \$ 0.10         | \$ 0.20                 | \$ 0.18         |
| Earnings per share diluted                                   | \$ 0.13                   | \$ 0.10         | \$ 0.19                 | \$ 0.18         |
| Weighted average shares outstanding basic                    | 39,500                    | 38,314          | 39,379                  | 38,229          |
| Weighted average shares outstanding diluted                  | 40,532                    | 38,988          | 40,452                  | 38,737          |

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,<br>2010 | December 31,<br>2009 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current Assets:   |                  |                      |
| Cash and cash equivalents   | \$ 410           | \$ 2,812             |
| Trade receivables, net of allowances of \$6,211 and \$6,604, respectively                   | 142,912          | 123,144              |
| Income taxes receivable   | 2,528            | 246                  |
| Deferred tax asset, net   | 5,679            | 6,011                |
| Prepaid expenses and other current assets   | 6,635            | 4,924                |
| Total current assets  | 158,164          | 137,137              |
| Fixed assets, net   | 38,314           | 11,407               |
| Other assets, net   | 33,441           | 32,914               |
| Deferred tax asset, net   | 9,371            | 10,380               |
| Intangible assets, net  | 8,865            | 10,075               |
| Goodwill  | 137,912          | 137,912              |
| Total assets  | \$ 386,067       | \$ 339,825           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                  |                      |
| Current Liabilities:  |                  |                      |
| Accounts payable and other accrued liabilities  | \$ 24,950        | \$ 25,437            |
| Accrued payroll costs   | 51,507           | 50,690               |
| Other current liabilities   | 2,254            | 2,807                |
| Income taxes payable  |                  | 279                  |
| Total current liabilities   | 78,711           | 79,213               |
| Long-term debt credit facility  | 38,000           | 3,000                |
| Long-term debt other  | 1,667            | 1,784                |
| Other long-term liabilities   | 28,314           | 29,103               |
| Total liabilities   | 146,692          | 113,100              |
| 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, 63,852 and 63,281 issued, respectively | 639              | 633                  |
| Additional paid-in capital  | 346,260          | 338,890              |
| Accumulated other comprehensive income  | (1,182)          | (1,213)              |
| Retained earnings   | 49,197           | 41,345               |
| Treasury stock, at cost; 24,346 and 24,176 shares, respectively                             | (155,539)        | (152,930)            |
| Total stockholders equity   | 239,375          | 226,725              |
| Total liabilities and stockholders equity   | \$ 386,067       | \$ 339,825           |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

|   | <b>Six Months Ended<br/>June 30, 2010</b> |
|---|---|
| <b>Common stock – shares:</b>   |   |
| Shares at beginning of period   | 63,281                                    |
| Issuance of restricted stock  | 133                                       |
| Exercise of stock options   | 438                                       |
| <b>Shares at end of period</b>  | <b>63,852</b>                             |
| <b>Common stock – par value:</b>  |   |
| Balance at beginning of period  | \$ 633                                    |
| Issuance of restricted stock  | 1   |
| Exercise of stock options   | 5   |
| <b>Balance at end of period</b>   | <b>\$ 639</b>                             |
| <b>Additional paid-in capital:</b>  |   |
| Balance at beginning of period  | \$ 338,890                                |
| Issuance of restricted stock  | (1)                                       |
| Exercise of stock options   | 3,002                                     |
| Income tax benefit from restricted stock and stock option exercises                           | 1,463                                     |
| Stock-based compensation expense  | 2,906                                     |
| <b>Balance at end of period</b>   | <b>\$ 346,260</b>                         |
| <b>Accumulated other comprehensive income:</b>  |   |
| Balance at beginning of period  | \$ (1,213)                                |
| Pension and postretirement plans, net of tax  | 31  |
| <b>Balance at end of period</b>   | <b>\$ (1,182)</b>                         |
| <b>Retained earnings:</b>   |   |
| Balance at beginning of period  | \$ 41,345                                 |
| Net income  | 7,852                                     |
| <b>Balance at end of period</b>   | <b>\$ 49,197</b>                          |
| <b>Treasury stock – shares:</b>   |   |
| Shares at beginning of period   | 24,176                                    |
| Shares repurchased for minimum tax withholding on restricted stock and stock option exercises | 87  |
| Shares tendered in payment of the exercise price of stock options                             | 83  |
| <b>Shares at end of period</b>  | <b>24,346</b>                             |

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|   |    |           |
|---|----|-----------|
| Treasury stock cost :   |    |           |
| Balance at beginning of period  | \$ | (152,930) |
| Shares repurchased for minimum tax withholding on restricted stock and stock option exercises |    | (1,293)   |
| Shares tendered in payment of the exercise price of stock options                             |    | (1,316)   |
| Balance at end of period  | \$ | (155,539) |

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)*

|   | <b>Six Months Ended</b>  |                          |
|---|--------------------------|--------------------------|
|   | <b>June 30,<br/>2010</b> | <b>June 30,<br/>2009</b> |
| Cash flows from operating activities:   |                          |                          |
| Net income  | \$ 7,852                 | \$ 7,068                 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |                          |                          |
| Intangible asset impairment charge  |                          | 870                      |
| Deferred income tax provision, net  | 1,321                    | 165                      |
| Depreciation and amortization   | 6,113                    | 5,925                    |
| Stock-based compensation  | 2,906                    | 1,619                    |
| Recovery of bad debts on accounts receivable and fallouts                               | (658)                    | (712)                    |
| Pension and postretirement benefit plans expense  | 1,993                    | 950                      |
| Alternative long-term incentive award   | 560                      | 872                      |
| Deferred compensation liability (decrease) increase, net                                | (487)                    | 866                      |
| Tax benefit attributable to stock-based compensation                                    | 1,463                    | 201                      |
| Excess tax benefit attributable to stock-based compensation                             | (995)                    | (2)                      |
| Loss (gain) on cash surrender value of company-owned life insurance                     | 1,091                    | (322)                    |
| Other   | 101                      | 8                        |
| (Increase) decrease in operating assets:  |                          |                          |