

KFORCE INC
Form 10-K
March 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 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)

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FLORIDA
(State or other jurisdiction of
incorporation or organization)

59-3264661
(IRS 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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, \$0.01 par value

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2010, was approximately \$368,836,004. For

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purposes of this determination, common stock held by each officer and director and by each person who owns 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock as of March 3, 2011, was 43,112,641.

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Parts Into Which Incorporated
Portions of Proxy Statement for the Annual Meeting of Shareholders scheduled to be held June 21, 2011 (Proxy Statement)	Part III

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 or indicates.

This report, particularly Item 1 Business, Item 1A Risk Factors, and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), 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, should and variations thereof and similar expressions are intended to identify

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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****Item 1. Business.**
Company Overview

We are a national provider of professional and technical specialty staffing services and solutions and operate through our corporate headquarters in Tampa, Florida as well as our 65 field offices, which are located throughout the United States, and two offices in Manila, Philippines. Kforce is a Florida corporation and was formed in August 1994 as a result of the combination of Romac & Associates, Inc. and three of its largest franchises. Kforce completed its Initial Public Offering in August 1995.

We provide our clients staffing services and solutions through four operating segments: Technology (Tech), Finance and Accounting (FA), Health and Life Sciences (HLS) and Government Solutions (GS). Kforce organizes and manages its Tech and FA segments on a regional basis: Atlantic, North and West. Our Tech segment includes the results of Kforce Global Solutions, Inc. (Global), a wholly-owned subsidiary, which has two offices in the Philippines. We believe this operational alignment supports a more customer-centric organization, leverages our best leaders, leverages client relationships across functional offerings, and streamlines the organization by placing senior management closer to the customer as well as achieving greater cost-efficiency. The HLS and GS segments are organized and managed by specialty because of the unique operating characteristics of each business.

The following charts depict the percentage of our total revenues for each of our segments for the years ended December 31, 2010 and 2009:

2010**2009***Tech*

We provide both temporary staffing and permanent placement services to our clients focusing primarily on more sophisticated areas of information technology (i.e., systems/applications programmers and developers, senior-level project managers, systems analysts, enterprise data management and e-business and networking technicians). Our Tech segment provides service to clients in a variety of industries with a strong footprint in healthcare, financial services and government integrators. A recent report published by Staffing Industry Analysts (SIA) listed the information technology staffing market as one of the fastest growing sectors in 2010. The report anticipates that technology staffing growth will accelerate in 2011 and in 2012 will surpass the prior peak set in 2000 during the height of the dot-com boom. The U.S. Bureau of Labor Statistics (BLS) lists computer systems design and related services among the fastest-growing industries reflecting the continuing demand for the high-level skills that are needed to keep up with changes in technology.

We believe this segment continues to benefit significantly from our centralized and highly flexible National Recruiting Center (NRC) as well as our Strategic Accounts strategy, which we believe will also provide significant leverage in supporting future growth. Our Tech segment includes the results of Global, a wholly-owned subsidiary. Global provides information technology outsourcing solutions internationally through two offices located in the Philippines. Our international operations comprised approximately 2% of net service revenues for the three years ended December 31, 2010.

FA

Our FA segment provides both temporary staffing and permanent placement services to our clients in areas such as: taxation, budget preparation and analysis, mortgage and loan processing, financial reporting, cost analysis, accounts payable, accounts receivable, professional administrative, credit and collections, general accounting, audit services, and systems and controls analysis and documentation to support compliance work under Section 404 of the Sarbanes-Oxley Act of 2002. Our FA segment provides service to clients in a variety of industries with a strong footprint in financial services and government integrators.

We believe this segment continues to benefit significantly from our centralized and highly flexible NRC as well as our Strategic Accounts strategy, which we believe will also provide significant leverage in supporting future growth.

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HLS

Our HLS segment includes our Clinical Research and Health Information Management specialties and provides both temporary staffing and permanent placements services to our clients. These categories primarily consist of clinical research associates for the pharmaceutical industry and health information management professionals for hospitals and healthcare facilities. The HLS segment, generally and especially in Clinical Research, is characterized by contracts and relationships that are typically longer-term in nature as compared to our Tech and FA segments. A substantial portion of the sales, account management and recruiting functions for the HLS segment is provided out of our corporate headquarters. We have seen a trend, among larger pharmaceutical companies, to achieve greater efficiency and effectiveness through functional outsourcing, which allows larger pharmaceutical companies to reduce the number of facilities and streamline vendor management efforts. Consistent with the recent consolidation that has occurred within the pharmaceutical sector, a material portion of revenues within HLS is concentrated in a relatively small number of clients. For the year ended December 31, 2010, the single largest client within the HLS segment comprised approximately 29.7% of this segment's total revenues while only representing 4.9% of total Kforce revenues.

GS

The Federal Government is one of the largest consumers of information technology, spending approximately \$78 billion in 2010 and budgeted to spend approximately \$79 billion in 2011. Our GS segment provides Tech and FA professionals to the Federal Government, primarily as a prime contractor. GS also serves as a subcontractor to prime contractors, and we believe that our ability to source professional candidates for assignments, in combination with our prime contractor relationships, will allow us to pursue additional opportunities in this sector. The acquisition of RDI Systems, Inc., d/b/a dNovus RDI (RDI or dNovus), in 2008 was an important milestone, as our GS segment then began to have annualized revenues in excess of \$100 million, which we believe provides this segment with access to more significant government contracts. Substantially all GS services are supplied to the Federal Government through field offices located in the Washington D.C. and San Antonio, Texas areas.

Types of Staffing Services

Kforce's staffing services consist of temporary staffing services (Flex) and permanent placement services (Search). The following chart depicts the percentage of total revenues for Flex and Search for the years ended December 31, 2010 and 2009:

2010 **2009**

Flex

We provide our clients with qualified individuals (consultants) on a temporary basis when it is determined that the consultants have the appropriate skills and experience and are the right match for our clients. Our success is dependent upon our employees (associates) ability to: (1) understand and acknowledge the clients' needs; (2) determine and understand the capabilities of the consultants being recruited; and (3) deliver and manage the client-consultant relationship to the satisfaction of both our clients and our consultants. Proper execution by our associates and our consultants directly impacts the longevity of the assignments and increases the likelihood of being able to generate repeat business with our clients.

Flex revenues are driven by the number of total hours billed and established bill rates. Flex gross profit is determined by deducting consultant pay, benefits and other related costs from Flex revenues. Flex associate commissions, related taxes and other compensation and benefits as well as field management compensation are included in Selling, General and Administrative expenses (SG&A), along with administrative and corporate compensation. The Flex business model involves attempting to maximize the number of consultant hours and bill rates, while managing consultant pay rates and benefit costs, as well as compensation and benefits for our core associates. Flex revenues also include solutions provided through our GS segment. These revenues involve providing longer-term contract services to the customer primarily on time-and-materials, fixed-price, and cost-plus bases.

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Search

The Search business is a smaller, yet important, part of our business that involves locating qualified individuals (candidates) for permanent placement with our clients. We primarily perform these searches on a contingency basis; thus, fees are only earned if the candidates are ultimately hired by our clients. The typical structure for search fees is based upon a percentage of the placed individual s annual compensation in their first year of employment, which is known at the time of placement. We recruit permanent employees from our Flex consultant population, from the job boards, from our associates networks, social media networks and from passive candidates we identify who are currently employed and not actively seeking another position. Also, there are occasions where consultants are initially assigned to a client on a Flex basis and later are converted to a permanent placement, for which we also receive a Search fee (referred to as conversion revenue). Kforce targets clients and recruits for both Flex and Search services, which contributes to our objective of providing integrated solutions for all of our clients human capital needs.

Search revenues are driven by placements made and the resulting fees billed and are recognized net of an allowance for fallouts, which occur when placements do not complete the applicable contingency period. Although the contingency period varies by contract, it is typically 90 days or less. This allowance for fallouts is estimated based upon historical experience with Search placements that did not complete the contingency period. There are no consultant payroll costs associated with Search placements, thus all Search revenues increase gross profit by a like amount. Search associate commissions, compensation and benefits are included in SG&A.

In order to achieve greater stability in our revenue stream, Kforce management has deemphasized the investment in Search revenues to total revenues over the last several years, primarily because of the highly volatile nature of the Search business. Search revenues comprised 4.0% of total revenues in 2010 in contrast to in excess of 20% in 2000.

Business Strategy

The key elements of our business strategy include the following:

Retain our Great People. A significant focus of Kforce, especially during the most recent economic cycle, is on the retention of our most tenured and productive associates. We ended fiscal 2010 with what we believe to be the most tenured field sales team in Kforce s history, which we believe will significantly enhance our efforts to achieve future growth.

Continue to Optimize our NRC. We believe our centralized NRC offers Kforce a significant competitive advantage, and we believe that the NRC is particularly effective at meeting the demands of our Strategic Account clients as well as other demands for high volume staffing. The NRC identifies and interviews active candidates from nationally contracted job boards, Kforce.com, as well as other sources, then forwards qualified candidates to Kforce field offices to be matched to available positions. The NRC primarily supports our Tech and FA segments but is also expanding its support of our HLS segment. The optimization of the NRC in 2010 was a significant priority for the Firm, specifically around building an appropriate number of associates, aligning our geographical delivery and achieving dedicated market support. Given the significant investment in headcount within the NRC in 2010, the average NRC tenure is just over one year. As a result, a continuing focus is on training, ramping and development, which we expect will: (i) significantly enhance the performance of the NRC in meeting demand; (ii) enhance our efforts to support future growth and (iii) expand the NRC as our revenues increase.

Focus on our Strategic Accounts. A focus of Kforce is in cultivating relationships with large clients, both in terms of annual revenues and geographic dispersion. For each of our Strategic Accounts, Kforce assigns a Strategic Account Executive who is responsible for managing all aspects of our client relationship.

Encourage Employee Achievement. We have an intense focus on promoting and maintaining a quality-focused, results-oriented culture. Our field associates and corporate personnel are given incentives (which include competitions with significant prizes, incentive trips and internal recognition, in addition to bonuses) to encourage achievement of Kforce s corporate goals and high levels of service. During 2010, we implemented and went live with a business intelligence tool referred to as AMP!, which is an acronym for Actions Maximizing Performance. This metrics-based system is designed to provide associates with current and historical performance measures relative to their Kforce peers, which we believe will fuel healthy competition and assist associates in reaching their highest performance levels.

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Focus on Value-Added Services. We focus on providing specialty staffing services and solutions to our clients. The placement of highly skilled personnel requires operational and technical skill to effectively recruit and evaluate personnel, match them to client needs, and manage the resulting relationships. 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, consultants and the Firm. Of the areas of Tech, FA, HLS and GS, we concentrate resources in the areas of highest anticipated demand to adapt to the ever-changing landscape within the staffing industry. We believe our historical focus in these markets, combined with our staff's operating expertise, provides us with a competitive advantage.

Build Long-Term, Consultative Relationships. We believe we have developed long-term relationships with our clients by repeatedly providing solutions to their specialty staffing requirements. We strive to differentiate ourselves by working closely with our clients to understand their needs and maximize their return on human assets. In addition, Kforce's ability to offer flexible staffing services, coupled with our permanent placement capability, offers the client a broad spectrum of specialty staffing services. We believe this ability enables Kforce to emphasize consultative rather than just transactional client relationships, with the intent of expanding our share of our client's staffing needs.

Achieve Extensive Client Penetration. Our client development process focuses on contacts with client employees responsible for staffing decisions. Contacts are made within functional departments and at different organizational levels within our client companies. Our associates are trained to develop a thorough understanding of each client's total staffing requirements in order to expand our share of our clients' staffing needs.

Recruit High-Quality Consultants. We place great emphasis on recruiting qualified consultants. We believe we have a recruiting advantage over our competitors who lack the ability to offer candidates flexible and permanent opportunities. We frequently place candidates seeking permanent employment in flexible assignments until a permanent position becomes available, as well as convert temporary candidates into permanent employees of our client companies.

Industry Overview

We serve Fortune 1000 companies, the Federal Government, state and local governments, local and regional companies, and small to mid-sized companies. Our 10 largest clients represented 23.5% of revenues and no single customer accounted for more than 4.9% of revenues for the year ended December 31, 2010. The specialty staffing industry is made up of thousands of companies, most of which are small local firms providing limited service offerings to a relatively small local client base. We believe Kforce is one of the 10 largest publicly-traded specialty staffing firms in the United States. According to a recent report by SIA, 94 companies reported at least \$100 million in U.S. staffing revenues in 2009. Competition in a particular market can come from many different companies, both large and small. We believe, however, that our geographic presence, diversified service offerings, centralized NRC, Strategic Account team and focus on consistent service and delivery, all provide a competitive advantage, particularly with clients that have operations in multiple geographic markets. In addition, we believe that our diversified portfolio of service offerings is concentrated in areas with significant growth opportunities in both the short and long-term.

Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for substantial additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. We also believe that Flex demand generally increases before demand for permanent placements increases given that companies tend to prefer a flexible staffing model in the early stages of an economic recovery to ensure its sustainability. From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which saw significant increases in 2010. While we believe the macro-employment picture continues to be relatively weak with the unemployment rate at 9.4% as of December 2010, temporary employment has expanded by 495,000 jobs since reaching a low in September 2009. In addition, the penetration rate (the percentage of temporary staffing to total employment) has increased 15 consecutive months from its low of 1.32% in August 2009 to over 1.7% in November 2010. 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 cautiously optimistic about the growth prospects of the temporary staffing industry, the penetration rate and in particular our revenue portfolio.

According to an industry report, the United States temporary staffing industry generated estimated revenues of \$96.7 billion in 2007, \$94.5 billion in 2008 and \$71.2 billion in 2009; with projected revenues of \$78.8 billion in 2010 and \$88.0 billion in 2011. Of course, no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular; which we believe will experience increasing demand in 2011.

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During 2006 and 2008, Kforce made several acquisitions in order to expand its presence in the Federal Government contracting space, primarily because the results of operations in the GS segment were anticipated to have better long-term growth stability during variable economic cycles. During 2010, our GS segment was significantly impacted by delays in the timing of project awards as well as a continuing trend by the Federal government to in-source certain functions and positions that were previously outsourced in an attempt to reduce expenditures. Continued political issues related to the federal budget may negatively impact the GS segment's 2011 performance. Despite the near-term challenges, however, we remain optimistic concerning the GS segment's long-term prospects.

Technology

A significant focus for Kforce is the continuous advancement of its front-end and back office technology infrastructure to improve efficiency and maintain a leveraged platform. We believe our continuous enhancement of our back office system software provides a competitive advantage through the enhancement of the efficiency and performance of our sales and delivery functions. While we continue to focus on our Enterprise Optimization Program (EOP), which is focusing on the continual improvement of our front-end systems and our back office systems, including our time collection and billing systems, the more significant investments in 2010 were as follows:

AMP! this metrics-based system is designed to provide our field associates with current and historical performance relative to their Kforce peers, which we believe will fuel positive competition and assist our field associates in reaching their highest performance levels.

Incentive Compensation Enterprise (ICE) we believe that this best-in-class compensation management software, which went live in January 2011, will efficiently manage the processes around all variable compensation within the Firm. We believe that this software will also provide the appropriate visibility to management to manage the performance of our associates and help to ensure that Kforce's pay-for-performance philosophy is adhered to.

Contracts Management System (CMS) we believe that this software will significantly improve the efficiency and effectiveness of the overall contract review and approval process both from a field and back-office perspective.

Time Entry 2.0 (TE 2.0) this project represented a significant upgrade to the Firm's time entry systems, which provided a sustainable and scalable technical solution to support the Firm's future growth. We believe that this solution has already demonstrated significant efficiency gains for our consultants and back office operations.

We expect to make additional investments in our infrastructure over the next 12 months, though at lower levels than experienced in 2010, which we believe will provide for a sufficient return on capital and support the future growth in our business.

While we believe our technology systems are adequate to meet our current needs, there can be no assurance that they will not be subject to system outages or data loss caused by natural or man-made disasters. In addition, Kforce depends on certain third-party vendors whose reliability we cannot guarantee going forward. One or more of such events could negatively impact our ability to conduct our business in the ordinary course.

Trade Names and Trademarks

The Kforce trade names and the **Data Confidence** trademarks are important to our business. Our primary trade names and trademarks are registered with the United States Patent and Trademark Office.

Regulatory Environment

Staffing firms are generally subject to one or more of the following types of government regulations: (i) regulation of the employer/employee relationship between a firm and its flexible staff, (ii) registration, licensing, recordkeeping and reporting requirements and (iii) substantive limitations on their operations. Staffing firms are governed by laws regulating the employer/employee relationship such as wage and hour regulations, tax withholding and reporting, social security and other retirement, anti-discrimination, and workers' compensation regulations.

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In addition, the services provided by our HLS Clinical Research business involve participation in clinical trials of pharmaceutical compounds using human subjects. This is a highly regulated field subject to oversight and inspection by the U.S. Food and Drug Administration.

In providing staffing services to the Federal Government, we must comply with complex laws and regulations relating to the formation, administration, and performance of Federal Government contracts. These laws and regulations create compliance risk and affect how we do business with our federal agency clients, and may impose added costs on our business.

For more discussion of the potential impact that the regulatory environment could have on Kforce's financial results, please see Item 1A. Risk Factors below.

Table of Contents***Competition***

We operate in a highly competitive and fragmented specialty staffing services industry within each of our operating segments. Within temporary staffing and permanent placement services, one of the more significant barriers to entry is that significant working capital is needed because most employees are paid on a bi-weekly basis and customers may take 30 to 45 days to pay. A number of our competitors have substantially more resources than we possess. We face substantial competition from large national firms and local specialty staffing firms. The local firms are typically operator-owned, and each market generally has one or more significant competitors. We also face competition from national clerical and light industrial staffing firms, and national and regional accounting firms that also offer certain specialty staffing services.

In addition, many companies utilize Vendor Management Systems (VMS) for the purchase of staffing services. Generally, VMS are systems that allow companies to manage service providers. Industry data shows that larger, more sophisticated companies are more likely to add VMS. Approximately 63% of these companies used VMS during 2009, up from 51% in 2008, and this usage is expected to increase to 81% in 2011. Typically, VMS providers charge staffing firms administrative fees of 1% to 3% of total service revenues, and these fees are usually recorded by staffing firms as a cost of services, thereby compressing their profit margins. While Kforce does not currently provide VMS directly to its clients, its strategy has been and is expected to continue to be to work with VMS providers to enable us to extend our Flex staffing services to the widest customer base possible within the sectors we serve.

In the United States, there are 94 staffing firms with more than \$100 million in U.S. staffing revenues in operation; and thousands of smaller organizations compete to varying degrees at local levels. Several similar companies global, national, and local compete in foreign markets. Our peer group for 2010, which is composed of some of our largest competitors, included: AMN Healthcare Services, CDI Corporation, Ciber, Inc., Kelly Services Inc., On Assignment Inc., Resources Connection, Inc., Robert Half International Inc., SFN Group, Inc., and Volt Information Sciences Inc.

Kforce believes that the availability and quality of personnel, level of service, effective monitoring of job performance, scope of geographic service, and price are the principal elements of competition in our industry. We believe that availability of quality personnel is especially important. In order to attract candidates, we place emphasis upon our ability to provide competitive compensation and benefits, quality and varied assignments, scheduling flexibility, and permanent placement opportunities. Because personnel pursue other employment opportunities on a regular basis, it is important that we respond to market conditions affecting these individuals. Additionally, in certain markets and in response to economic softening, we have experienced significant pricing pressure from some of our competitors. Although we believe we compete favorably with respect to these factors, we expect competition and pricing pressure to continue, and there can be no assurance that we will remain competitive.

Seasonality of Operating Results

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers businesses. The majority of our operating segments, especially HLS and GS, are significantly impacted by the increase in the number of holidays and vacation days taken during the fourth quarter of the calendar year. 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 annual U.S. state and federal employment tax resets that occur at the beginning of each year.

Insurance

Kforce maintains a number of insurance policies including general liability, automobile liability and employers liability; each with excess liability coverage. We also maintain workers compensation, fidelity, fiduciary, directors and officers, professional liability, and employment practices liability policies. These policies provide coverage subject to their terms, conditions, limits of liability, and deductibles, for certain liabilities that may arise from Kforce s operations. There can be no assurance that any of the above policies will be adequate for our needs, or that we will maintain all such policies in the future.

Financial Information about Foreign and Domestic Operations

Substantially all of Kforce s revenues are derived from domestic operations with customers located in the United States and substantially all long-lived assets are located in the United States for the three years ended December 31, 2010. One of our subsidiaries, Global, provides outsourcing services internationally through two offices in Manila, Philippines. Our international operations comprised approximately 2% of net service revenues for the three years ended December 31, 2010.

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Financial Information about Business Segments

We provide our clients staffing services and solutions through four operating segments: Tech, FA, HLS and GS. For segment financial data see Note 16 Reportable Segments to the Consolidated Financial Statements.

Operating Employees and Personnel

As of December 31, 2010, Kforce employed approximately 2,000 associates and had approximately 10,400 consultants on assignment (Flexible Consultants) providing flexible staffing services and solutions to our clients. Approximately 80% of the Flexible Consultants are employed directly by Kforce (Flexible Employees); the balance consists of individuals who are employed by other entities (Independent Contractors) that provide their employees as subcontractors to Kforce for assignment to its clients. As the employer, Kforce is responsible for the operating employees and Flexible Employees payrolls and the employer s share of applicable social security taxes (FICA), federal and state unemployment taxes, workers compensation insurance, and other direct labor costs relating to our employees. We offer access to various health, life and disability insurance programs and other benefits for operating employees and Flexible Employees. We have no collective bargaining agreements covering any of our operating employees or Flexible Employees, have never experienced any material labor disruption, and are unaware of any current efforts or plans to organize any of our employees.

Availability of Reports and Other Information

We make available, free of charge, through the Investor Relations page on our website, and by responding to requests addressed to Michael Blackman, our Chief Corporate Development Officer, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically submit such materials to the SEC. Our corporate website address is <http://www.kforce.com>. The information contained on our website, or on other websites linked to our website, is not part of this document. In addition, the SEC s website is <http://www.sec.gov>. The SEC makes available on its website, free of charge, reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the SEC. Information provided on the SEC s website is not part of this Annual Report on Form 10-K.

Table of Contents**Item 1A. Risk Factors.****Kforce faces significant employment-related legal risk.**

Kforce employs people internally and in the workplaces of other businesses. Many of these individuals have access to client information systems and confidential information. An inherent risk of such activity includes possible claims of errors and omissions; intentional misconduct; release, misuse or misappropriation of client intellectual property, confidential information, funds, or other property; discrimination and harassment claims; employment of illegal aliens; criminal activity; torts; or other claims. Such claims may result in negative publicity, injunctive relief, criminal investigations and/or charges, payment by Kforce of monetary damages or fines, or other material adverse effects on our business. To reduce our exposure, we maintain insurance coverage for professional malpractice liability, fidelity, employment practices liability, and general liability in amounts and with deductibles that we believe are appropriate for our operations. Our insurance coverage, however, may not cover all potential claims against us or continue to be available to us at a reasonable cost. In this regard, we face various employment-related risks not covered by insurance, such as wage and hour laws and employment tax responsibility. U.S. Courts in recent years have been receiving large numbers of wage and hour class action claims alleging misclassification of overtime eligible workers and/or failure to pay overtime-eligible workers for all hours worked. In addition, declining tax revenues in the current economic environment have heightened state and federal scrutiny of independent contractor relationships.

Kforce may be adversely affected by immigration restrictions.

Our Tech business utilizes a significant number of foreign nationals entering the U.S. on work visas, primarily under the H-1B visa classification. The H-1B visa classification enables U.S. employers to hire qualified foreign nationals in positions that require an education at least equal to a bachelor's degree in the U.S. Immigration laws and regulations are subject to legislative and administrative changes, as well as changes in the application of standards and enforcement. Immigration laws and regulations can be significantly affected by political developments and levels of economic activity. Current and future restrictions on the availability of such visas could restrain our ability to import the skilled professionals we need to meet our clients' needs, which could have a material adverse effect on our business. In 2009, the United States Customs and Immigration Service (USCIS) significantly increased its scrutiny of companies seeking to sponsor, renew or modify H-1B visas, including Kforce and Kforce's subcontractors. On January 8, 2010, the USCIS issued internal guidance to its field offices that appears to narrow the eligibility criteria for H-1B visas in the context of staffing services. In addition to immigration restrictions, certain aspects of the H-1B visa program are subject to regulation by the U.S. Department of Labor, which has recently hired additional personnel and stepped up enforcement activities in a number of areas, including immigration. The scope and impact of these changes on the staffing industry and Kforce remains unclear, however a narrow interpretation and vigorous enforcement could adversely affect our ability to obtain foreign national labor and/or renew existing foreign national consultants on assignment, and could subject us to fines, penalties and sanctions. There can be no assurance that we will be able to keep or replace all foreign nationals currently on assignment, or continue to import foreign national talent at the same rates as in the past.

Kforce may be adversely affected by government regulation of the staffing business, and of the workplace.

Our business is subject to regulation and licensing in many states. There can be no assurance that we will be able to continue to obtain all necessary licenses or approvals or that the cost of compliance will not prove to be material. If we fail to comply, such failure could materially adversely affect Kforce's financial results.

Part of our business entails employing individuals on a temporary basis and placing such individuals in clients' workplaces. Increased government regulation of the workplace or of the employer-employee relationship could have a material adverse effect on Kforce.

Any failure by our HLS Clinical Research business to comply with certain regulations, policies and procedures specific to that business could harm our operating results and/or reputation.

The services provided by our HLS Clinical Research business involve participation in clinical trials of pharmaceutical compounds using human subjects. This is a highly regulated field subject to oversight and inspection by the U.S. Food and Drug Administration (FDA). Any failure on our part to comply with the regulations, policies, or procedures established for a trial, or to comply with good clinical research practices, could result in the termination of the trial or the disqualification of data for submission to the FDA. This could subject us to regulatory sanctions and penalties, create substantial contractual or other legal liability to our client(s), harm our reputation, harm our ability to win or participate in future business, and harm our operating results.

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We face certain risks in collecting our trade accounts receivable.

We generate a significant amount of trade accounts receivable from our customers. Delays or defaults in payments owed to us could have a material adverse effect on our financial condition and results of operations. Factors that could cause a delay or default include business failures, turmoil in the financial and credit markets, sluggish or recessionary U.S. economic conditions, our exposure to customers in high-risk sectors such as the financial services industry, and declines in the credit worthiness of our customers. See Note 1 Summary of Significant Accounting Policies to the Consolidated Financial Statements for further details.

Kforce may not be able to maintain sufficient cash flow or borrowing capacity to support operations.

On October 2, 2006, Kforce entered into a Second Amended and Restated Credit Agreement with a syndicate led by Bank of America, N.A. (the Credit Facility). Kforce's maximum borrowings under the Credit Facility are \$140 million, which includes a revolving loan tranche of up to \$125 million (the Revolving Loan Amount) and a \$15 million sub-limit for letters of credit.

Kforce's liquidity may be adversely impacted by covenants in our Credit Facility. 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. 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 December 31, 2010, Kforce had availability under the Credit Facility of \$89.3 million; therefore, the minimum fixed charge coverage ratio 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 may fail the minimum fixed charge coverage ratio, which would constitute an event of default. The Credit Facility expires in November 2011. If we are not able to enter into or if there is a significant delay in the timing of our entering into an extension of the existing Credit Facility, a new credit facility or an alternative financing vehicle, our financial condition and liquidity may be materially adversely impacted.

At no time during the existence of the Credit Facility have we failed to meet the minimum availability and fixed charge coverage ratio requirements. If we did not comply with these financial covenants, such a breach of the Credit Facility could materially adversely affect our liquidity and financial condition and could result, among other things, in the acceleration of all amounts borrowed under the Credit Facility. See the Liquidity and Capital Resources portion of the MD&A in this annual report.

The financial markets may experience significant turmoil, similar to the turmoil of 2008 and 2009, which may negatively impact our liquidity and our ability to obtain financing.

Our liquidity and our ability to obtain financing may be negatively impacted if one of our lenders under our Credit Facility, or another financial institution, suffers liquidity issues. In such an event, we may not be able to draw on any of the amounts available under our Credit Facility, or a substantial portion thereof. This could limit Kforce's ability to make strategic acquisitions and/or selective repurchases of its common stock.

Also, when we attempt to extend our Credit Facility, or if we attempt to obtain future financing in addition to, or as a replacement of, our Credit Facility, the credit market turmoil could negatively impact our ability to obtain such financing or at favorable terms.

Kforce's temporary staffing business could be adversely impacted by recent health care reform.

The Health Care and Education Reconciliation Act of 2010 that was signed into law in March 2010 could have an adverse effect on Kforce by increasing the cost of providing temporary staffing services. If such an increase occurs, we could experience a reduction in our Flex gross profit if there is a delay in or inability to increase bill rates charged to our customers.

We are exposed to intangible asset risk which could result in future impairment.

A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in the need to perform an impairment analysis in future periods. If we were to conclude that a future write down of our goodwill is necessary, we would then record the appropriate charge, which could result in material charges that are adverse to our operating results and financial position. See Note 6 Goodwill and Other Intangible Assets to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates for further details.

Inflation may adversely affect our business operations in the future.

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Given the current macroeconomic environment, the U.S. government has and may attempt in the future to provide additional monetary stimulus, a fiscal stimulus, or both, to the U.S. economy. Such actions may lead to inflationary conditions in our cost base, particularly resulting in an increase in the compensation, commissions, and benefits components of our SG&A expenses. This may harm our margins and profitability if we are unable to increase prices or cut costs enough to offset the effects of inflation in our cost base.

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Significant legal actions could subject Kforce to substantial uninsured liabilities.

Professional service providers are subject to legal actions alleging malpractice and other legal theories. These actions may involve large claims and significant defense costs. We may also be subject to claims alleging violations of federal or state labor laws. In addition, we may be subject to claims related to torts, intentional acts, or crimes committed by our full-time employees or temporary staffing personnel. In some instances, we are contractually obligated to indemnify clients against such risks. A failure of any of our employees or personnel to observe the applicable standard of care, relevant Kforce or client policies and guidelines, or applicable federal, state, or local laws, rules, and regulations could result in negative publicity, payment of fines, significant damage awards, or settlement expense. To reduce our exposure, we maintain insurance coverage for professional malpractice liabilities, fidelities, employment practices liabilities, and general liabilities in amounts and with deductibles that we believe are appropriate for our operations. Our insurance coverage, however, may not cover all claims against us or continue to be available to us at a reasonable cost.

Kforce may not be able to recruit and retain qualified personnel.

Kforce depends upon the abilities of its staff to attract and retain personnel, particularly technical, professional, and cleared government services personnel, who possess the skills and experience necessary to meet the staffing requirements of our clients. We must continually evaluate and upgrade our base of available qualified personnel to keep pace with changing client needs and emerging technologies. We expect competition for individuals with proven technical or professional skills for the foreseeable future. If qualified personnel are not available to us in sufficient numbers and upon economic terms acceptable to us, it could have a material adverse effect on our business.

Kforce's success depends upon retaining the services of its management team and key operating employees.

Kforce is highly dependent on its management team and expects that continued success will depend largely upon their efforts and abilities. The loss of the services of any key executive for any reason could have a material adverse effect upon Kforce. Success also depends upon our ability to identify, develop, and retain qualified operating employees; particularly management, client servicing, and candidate recruiting employees. Kforce expends significant resources in the recruiting and training of its employees, as the pool of available applicants for these positions is limited. The loss of some of our key operating employees could have a material adverse effect on our business, including our ability to establish and maintain client and candidate, professional, and technical relationships.

Kforce depends on the proper functioning of its information systems.

Kforce is dependent on the proper functioning of information systems in operating its business. Critical information systems are used in every aspect of Kforce's daily operations, most significantly, in the identification and matching of staffing resources to client assignments and in the customer billing and consultant payment functions. Kforce's information systems are vulnerable to natural disasters (we are headquartered and our leased data center are located in a hurricane-prone area), fire or casualty theft, technical failures, terrorist acts, power loss, telecommunications failures, physical or software intrusions, computer viruses, and similar events. If our critical information systems fail or are otherwise unavailable, we would have to accomplish these functions manually, which could prove difficult or impossible, causing a material adverse effect on our business. In addition, we depend on third-party vendors for certain functions, whose future performance and reliability we cannot warrant.

Significant increases in payroll-related costs could adversely affect Kforce's business.

Kforce is required to pay a number of federal, state, and local payroll and related costs, including unemployment taxes, workers' compensation and insurance premiums and claims, FICA, and Medicare, among others, related to our employees. Significant increases in the effective rates of any payroll-related costs would likely have a material adverse effect on Kforce. Recently, many of the states in which Kforce conducts business have significantly increased their state unemployment tax rates in an effort to increase funding for unemployment benefits. Costs could also increase as a result of health care reforms or the possible imposition of additional requirements and restrictions related to the placement of personnel. We may not be able to increase the fees charged to our clients in a timely manner and in a sufficient amount to cover these potential cost increases.

If Kforce becomes subject to material liabilities under our self-insured programs, our financial results may be adversely affected.

Kforce provides workers' compensation coverage through a program that is partially self-insured. In addition, we provide medical coverage to our employees through a partially self-insured program. If we become subject to substantial uninsured workers' compensation or medical coverage liabilities, our financial results may be adversely affected.

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Adverse results in tax audits could result in significant cash expenditures or exposure to unforeseen liabilities.

Kforce is subject to periodic federal, state, and local tax audits for various tax years. Although Kforce attempts to comply with all taxing authority regulations, adverse findings or assessments made by taxing authorities as the result of an audit could have a material adverse effect on Kforce.

Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors and fraud, or in making all material information known in a timely manner to management.

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Kforce have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The addition of offices and entry into new geographic markets may not occur on a timely basis or achieve anticipated financial results.

Kforce's growth depends in part on our ability to enter new vertical or geographic markets successfully. This expansion is dependent on a number of factors, including our ability to:

develop, recruit, and maintain a base of qualified professionals within a new geographic market;

initiate, develop, train and sustain corporate client relationships in each new vertical or geographic market;

attract, hire, integrate, and retain qualified sales and sales support employees; and

accurately assess the demand in a new market.

The addition of new offices and entry into new vertical or geographic markets typically results in increases in operating expenses, primarily due to increased employee headcount. Expenses are incurred in advance of forecasted revenue, and there is typically a delay before our new employees reach full performance potential. Additionally, demand for our services in new markets that we enter might also be less than we anticipate. If we are unable to enter new vertical or geographic markets in a cost-effective manner or if demand for our services in new markets does not meet or exceed our forecasts, our business, operating results and financial condition could be negatively impacted. Historically, we have closed and consolidated offices to improve efficiency, and further closures or consolidation may occur depending on market and competitive conditions.

Our business is dependent upon maintaining our reputation, our relationships, and our performance.

The reputation and relationships that we have established and currently maintain with our customers are important to maintaining existing business and identifying new business. If our reputation or relationships were damaged, it could have a material adverse effect on our operations. In addition, if our performance does not meet our customers' expectations, our revenues and operating results could be materially harmed.

We rely on short-term contracts with most of our clients.

Because long-term contracts are not a significant part of our business, other than in our HLS and GS segments, future financial results cannot be reliably predicted by considering past trends or extrapolating past results. Further, our reliance on short-term contracts exerts continued pressure on us when we try to renew contracts with existing clients who may seek better terms upon renewal.

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Our offshore outsourcing solutions are limited.

Many staffing customers are now seeking an offshore solution to support their technology and business process function and, as a result, a significant amount of technology and financial staffing may be replaced by offshore resources. We provide a limited technology staffing solution through two offices in the Philippines to certain clients whose contracts were acquired in conjunction with the 2006 acquisition of PCCI. There can be no assurance that we will be able to compete successfully against other offshore solution providers or that we will not lose significant market share and revenue.

We do not provide a VMS solution.

Many staffing customers are seeking to consolidate their use of staffing services through the use of a VMS solution. Kforce provides consultants to these clients through other staffing companies who utilize a VMS solution, but we do not currently provide this service directly to our clients. There can be no assurance that we can continue to effectively compete with those companies that provide a VMS solution. If we must provide a VMS solution, we could incur significant costs.

Kforce's current market share may decrease as a result of limited barriers to entry for new competitors and discontinuation of clients outsourcing their staffing needs.

We face significant competition in the markets we serve, and there are limited barriers to entry for new competitors. The competition among staffing services firms is intense. Kforce competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, temporary personnel agencies, search firms, and other providers of staffing services. A number of our competitors possess substantially greater resources than we do. From time to time, we experience significant pressure from our clients to reduce price levels. During these periods, we may face increased competitive pricing pressures and may not be able to recruit the personnel necessary to fulfill our clients needs. We also face the risk that certain of our current and prospective clients will decide to provide similar services internally. There can be no assurance that we will continue to successfully compete.

Competition for acquisition opportunities may restrict Kforce's future growth by limiting our ability to make acquisitions at reasonable valuations.

Kforce has increased its market share and presence in the staffing industry through strategic acquisitions of companies that have complemented or enhanced its business. We have historically faced competition for acquisitions. In the future, this could limit our ability to grow through acquisitions or could raise the prices of acquisitions and make them less accretive or possibly non-accretive to us. In addition, Kforce may be limited by its ability to obtain financing to consummate desirable acquisitions.

Kforce may face significant risk arising from acquisitions.

Kforce may face difficulties integrating future acquisitions into existing operations and acquisitions may be unsuccessful, involve significant cash expenditures, or expose Kforce to unforeseen liabilities.

These acquisitions involve numerous risks, including:

potential loss of key employees or clients of acquired companies;

difficulties integrating acquired personnel and distinct cultures into a single business;

diversion of management attention from existing operations; and

assumption of liabilities and exposure to unforeseen liabilities of acquired companies.

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These acquisitions may also involve significant cash expenditures, debt incurrence, integration expenses, and exposure to unforeseen liabilities that could have a material adverse effect on our financial condition, results of operations, and cash flows. Any acquisition may ultimately have a negative impact on our business and financial condition.

Decreases in patient occupancy at healthcare clients facilities may adversely affect the profitability of Kforce's business.

Demand for temporary healthcare staffing services is significantly affected by the general level of patient occupancy at healthcare clients facilities. When a hospital's occupancy increases, temporary employees are often added before full-time employees are hired. As occupancy decreases, clients may reduce their use of temporary employees before undertaking layoffs of their regular employees. Kforce may also experience more competitive pricing pressure during periods of occupancy downturn. This reduction in occupancy could adversely affect the demand for services and Kforce's profitability.

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Future changes in reimbursement trends could hamper our clients' ability to pay Kforce.

Many of Kforce's healthcare clients are reimbursed under the federal Medicare program and state Medicaid programs for the services they provide. In recent years, federal and state governments have made significant changes in these programs that have reduced government rates. In addition, insurance companies and managed-care organizations seek to control costs by requiring that healthcare providers, such as hospitals, discount their services in exchange for exclusive or preferred participation in their benefit plans. Future federal and state legislation or evolving commercial reimbursement trends may further reduce, or change conditions for, our clients' reimbursements. Limitations on reimbursement could reduce our clients' cash flow, hampering their ability to pay us. This situation could have a significant impact on our cash flow.

Provisions in Kforce's articles and bylaws and under Florida law may have certain anti-takeover effects.

Kforce's articles of incorporation and bylaws and Florida law contain provisions that may have the effect of inhibiting a non-negotiated merger or other business combination. In particular, our articles of incorporation provide for a staggered board of directors and permit the removal of directors only for cause. Additionally, management may issue up to 15 million shares of preferred stock, and fix the rights and preferences thereof, without a further vote of the shareholders. In addition, certain of our officers and managers have employment agreements containing certain provisions that call for substantial payments to be made to such employees in certain circumstances upon a change in control. Certain of these provisions may discourage a future acquisition of Kforce, including an acquisition in which shareholders might otherwise receive a premium for their shares. As a result, shareholders who might desire to participate in such a transaction may not have the opportunity to do so. Moreover, the existence of these provisions could have a negative effect on the market price of our common stock.

Kforce's stock price may be volatile.

Kforce's common stock is traded on The NASDAQ Global Select Market under the symbol **KFRC**. The market price of our stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including our operating results, changes in general conditions in the economy, the financial markets, the employment services industry, or other developments affecting us, our clients, or our competitors; some of which may be unrelated to our performance.

In addition, the stock market in general, especially The NASDAQ Global Select Market tier, along with market prices for staffing companies, has experienced volatility that has often been unrelated to the operating performance of these companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Among other things, volatility in our stock price could mean that investors will not be able to sell their shares at or above the prices they pay. The volatility also could impair our ability in the future to offer common stock as a source of additional capital or as consideration in the acquisition of other businesses.

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RISKS RELATED TO OUR GOVERNMENT BUSINESSES

In 2006, Kforce acquired PCCI and Bradson, which were both merged during 2007 into Kforce Government Solutions (KGS). In 2008, Kforce acquired RDI, which was merged into KGS during 2009. KGS is substantially dedicated to contracting with and serving U.S. Federal Government agencies (the Federal Agency Business), primarily as a prime contractor. In addition, Kforce supplies services to the Federal Government, primarily as a staffing services provider to federal prime contractors. Federal contractors, including KGS and Kforce face a number of risks, including the following:

Our failure to comply with complex federal procurement laws and regulations could cause us to lose business, incur additional costs, and subject us to a variety of penalties, including suspension and debarment from doing business with the Federal Government.

We must comply with complex laws and regulations relating to the formation, administration, and performance of Federal Government contracts. These laws and regulations create compliance risk, affect how we do business with our federal agency clients, and may impose added costs on our business.

If a government review or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to our reputation, suspension of payments, fines, and suspension or debarment from doing business with Federal Government agencies. On December 15, 2009, the United States Department of Interior (DOI) suspended KGS from seeking new Federal business or renewing existing business, and proposed to debar KGS, for failure to follow procurement regulations relating to conflicts of interest. The suspension and proposed debarment was withdrawn on December 29, 2009, pursuant to the terms of a three-year Administrative Agreement entered into between KGS and DOI. The Administrative Agreement imposes training requirements, oversight and controls on KGS for a period of three years. While we believe that we have remained in compliance with the Administrative Agreement, the failure of KGS to comply with the Administrative Agreement during this period could have a material adverse impact on KGS and Kforce, including suspension and debarment from doing business with the Federal Government.

The Federal Government also may reform its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, that could be costly to satisfy or that could impair our ability to obtain new contracts. A failure to comply with all applicable laws and regulations could result in contract termination, price or fee reductions, or suspension or debarment from contracting with the Federal Government; each of which could lead to a material reduction in our revenues, cash flows and operating results.

Unfavorable government audit results could force us to refund previously recognized revenues and could subject us to a variety of penalties and sanctions.

Federal agencies can audit and review our performance on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations, and standards. An audit of our work, including an audit of work performed by companies Kforce has acquired or may acquire, or subcontractors we have hired or may hire, could force us to refund previously recognized revenues.

If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with Federal Government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made against us, whether or not true.

If we were suspended or debarred from contracting with the Federal Government generally or with any specific agency, if our reputation or relationships with Government agencies were impaired, or if the Government otherwise were to cease doing business with us or were to significantly decrease the amount of business it does with us, our revenue, cash flows and operating results could be materially adversely affected.

The failure by Congress to approve budgets on a timely basis for the federal agencies we support could delay or reduce spending and cause us to lose revenue.

On an annual basis, Congress must approve and the President must sign the appropriation bills that govern spending by each of the federal agencies we support. When Congress is unable to agree on budget priorities and is unable to pass the annual budget on a timely basis, Congress typically enacts a continuing resolution authority (CRA). A CRA allows government agencies to operate at 75% of spending levels approved in the previous budget cycle. When government agencies must operate under a CRA, it may delay funding we expect to receive from clients on work we are already performing and will likely result in any new initiatives being delayed, or potentially cancelled.

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Changes in the spending policies or budget priorities of the Federal Government could cause us to lose revenue.

Changes in Federal Government fiscal or spending policies could adversely affect our government agency business. For example, the Federal Government began in 2009 to in-source certain functions. If this trend continues, it could adversely affect our business. In addition, our business could be adversely affected by decreases in Federal Government spending.

Our Federal Agency Business is dependent upon maintaining our reputation, our relationships and our performance.

The reputation and relationships that we have established and currently maintain with government personnel and agencies are important to maintaining existing business and identifying new business. If our reputation or relationships were damaged, it could have a material adverse effect. In addition, if our performance does not meet agency expectations, our revenues and operating results could be materially harmed.

Competition is intense in the Federal Agency Business.

There is often intense competition to win federal agency contracts. Even when a contract is awarded to us, competitors frequently challenge such awards. If we are unable to successfully compete for new business or win competitions to maintain existing business, our revenue growth and margins may decline. Many of our competitors are larger and have greater resources, larger client bases, and greater brand recognition than we do. Our larger competitors also may be able to provide clients with different or greater capabilities or benefits than we can provide.

Loss of our General Services Administration (GSA) Schedules or other contracting vehicles could impair our ability to win new business.

GSA Schedules constitute a significant percentage of revenues from our federal agency clients. If we were to lose one or more of these Schedules or other contracting vehicles, we could lose revenues and our operating results could be adversely affected. These Schedules or contracts typically have an initial term with multiple options that may be exercised by our government agency clients to extend the contract for successive periods of one or more years. We can provide no assurance that our clients will exercise these options.

Our failure to obtain and maintain necessary security clearances may limit our ability to perform classified work for government clients, which could cause us to lose business.

Some government contracts require us to maintain facility security clearances and require some of our employees to maintain individual security clearances. If our employees lose or are unable to timely obtain security clearances, or we lose a facility clearance, a government agency client may terminate the contract or decide not to renew it upon its expiration.

Our employees may engage in misconduct or other improper activities, which could harm our business.

Like all government contractors, we are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by our employees could include intentional failures to comply with Federal Government procurement regulations, engaging in unauthorized activities, seeking reimbursement for improper expenses, or falsifying time records. Employee misconduct could also involve the improper use of our clients sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation. It is not always possible to deter employee misconduct, and precautions to prevent and detect this activity may not be effective in controlling such risks or losses, which could adversely affect our business.

Security breaches in sensitive government information systems could result in the loss of our clients and cause negative publicity.

Many of the systems we develop, install, and maintain involve managing and protecting information used in intelligence, national security, and other sensitive or classified government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive or classified systems for Federal Government clients. We could incur losses from such a security breach that could exceed the policy limits under our insurance. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of our systems could materially reduce our revenues.

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None.

Item 2. Properties.

On May 27, 2010, we acquired our corporate headquarters in Tampa, Florida, which we previously leased and which is approximately 128,000 square feet of space, for a purchase price of \$28.5 million. Leases for our field offices, which are located throughout the U.S., range from three to five-year terms although there are a few month-to-month arrangements and one 10-year lease term. We also lease approximately 24,000 square feet of combined space in two offices in Manila, Philippines.

Although additional field offices may be established based on the requirements of our operations, we believe that our facilities are adequate for our current needs, and we do not expect to materially expand our facilities in the foreseeable future.

Item 3. Legal Proceedings.

As disclosed in our previous filings with the SEC, Kforce is 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 Quarterly Report on Form 10-Q for the period ended September 30, 2010 has been preliminarily approved by the Court in the adjusted amount of approximately \$2.5 million, which has been recorded within accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. A hearing on the final approval is scheduled to take place in May 2011.

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, we are not aware of any pending legal proceedings that are likely to have a material adverse impact on Kforce.

Item 4. Reserved.

None.

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

Our common stock trades on the NASDAQ Global Select Market under the symbol KFRC. The following table sets forth, for the periods indicated, the high and low intra-day sales price of our common stock, as reported on the NASDAQ Global Select Market. These prices represent inter-dealer quotations without retail markups, markdowns or commissions, and may not represent actual transactions.

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2010				

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High	\$ 16.04	\$ 16.25	\$ 14.51	\$ 17.10
Low	\$ 12.32	\$ 11.92	\$ 9.80	\$ 13.04
2009				
High	\$ 8.31	\$ 11.20	\$ 12.65	\$ 14.43
Low	\$ 5.44	\$ 6.69	\$ 8.05	\$ 10.34

From January 1, 2011 through March 3, 2011, the high and low intra-day sales price of our common stock was \$19.23 and \$16.00, respectively. On March 3, 2011, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$18.06 per share.

Table of Contents*Holders of Common Stock*

On March 3, 2011, there were approximately 206 holders of record.

Dividends

Since our initial public offering in 1995, we have not paid any cash dividends on its common stock and has no current intention to do so. Kforce is not restricted under its currently existing Credit Facility from paying dividends.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about our common stock that may be issued under all of our existing equity compensation plans as of December 31, 2010:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) (3) (4)
Equity compensation plans approved by shareholders			
Kforce Inc. 2006 Stock Incentive Plan	853,920	\$ 9.64	2,939,013
Kforce Inc. 2009 Employee Stock Purchase Plan	N/A	N/A	3,000,000
Total	853,920	\$ 9.64	5,939,013
Equity compensation plans not approved by shareholders		\$	

- (1) In addition to the number of securities listed in this column, 1,897,511 shares of performance accelerated restricted stock and restricted stock granted under the Kforce Inc. 2006 Stock Incentive Plan have been issued and are invested as of December 31, 2010.
- (2) The weighted-average exercise price excludes unvested performance accelerated restricted stock and restricted stock because there is no exercise price associated with these equity awards.
- (3) All of the shares of common stock that remain available for future issuance under the Kforce Inc. 2006 Stock Incentive Plan may be issued in connection with options, warrants, rights and restricted stock awards. Each future grant of options or stock appreciation rights shall reduce the available shares under the Kforce Inc. 2006 Stock Incentive Plan by an equal amount while each future grant of restricted stock shall reduce the available shares by 1.58 shares for each share awarded. In order to maximize our share reserves, the prevailing practice over the last few years has been for Kforce to issue full value awards as opposed to options and stock appreciation rights.
- (4) There are 3,000,000 shares of common stock that remain available for future issuance under the Kforce Inc. 2009 Employee Stock Purchase Plan (2009 ESPP). As of December 31, 2010, there were options outstanding under the 2009 ESPP to purchase 8,979 shares of common stock at a discounted purchase price of \$15.37.

Purchases of Equity Securities by the Issuer

There were no repurchases of Kforce common stock during the three months ended December 31, 2010.

Table of Contents**Item 6. Selected Financial Data.**

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with the information within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

	Years Ended December 31,				
	2010	2009	2008 (1)	2007	2006
	<i>(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)</i>				
Net service revenues	\$ 990,807	\$ 910,136	\$ 997,017	\$ 972,781	\$ 868,001
Gross profit	312,414	285,979	344,651	352,023	304,749
Selling, general and administrative expenses	265,183	251,268	415,884	272,335	241,503
Depreciation and amortization	12,611	11,673	13,824	14,487	11,551
Other expense, net	1,296	1,145	2,136	4,422	3,701
Income (loss) from continuing operations, before income taxes	33,324	21,893	(87,193)	60,779	47,994
Provision for income taxes	12,690	9,020	1,928	23,856	18,550
Income (loss) from continuing operations	20,634	12,873	(89,121)	36,923	29,444
Income from discontinued operations, net of income taxes			5,013	3,444	3,075
Net income (loss)	\$ 20,634	\$ 12,873	\$ (84,108)	\$ 40,367	\$ 32,519
Earnings (loss) per share basic, continuing operations	\$ 0.52	\$ 0.33	\$ (2.26)	\$ 0.90	\$ 0.73
Earnings (loss) per share diluted, continuing operations	\$ 0.51	\$ 0.33	\$ (2.26)	\$ 0.87	\$ 0.70
Earnings (loss) per share basic	\$ 0.52	\$ 0.33	\$ (2.13)	\$ 0.98	\$ 0.81
Earnings (loss) per share diluted	\$ 0.51	\$ 0.33	\$ (2.13)	\$ 0.95	\$ 0.77
Weighted average shares outstanding basic	39,480	38,485	39,471	41,308	40,189
Weighted average shares outstanding diluted	40,503	39,330	39,471	42,294	42,012

	As of December 31,				
	2010	2009	2008 (1)	2007	2006
	<i>(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)</i>				
Working capital	\$ 64,878	\$ 57,924	\$ 60,302	\$ 95,348	\$ 64,425
Total assets	\$ 391,044	\$ 339,825	\$ 350,815	\$ 476,136	\$ 442,618
Total outstanding borrowings credit facility	\$ 10,825	\$ 3,000	\$ 38,022	\$ 50,330	\$ 86,435
Total long-term liabilities	\$ 36,904	\$ 33,887	\$ 59,528	\$ 78,102	\$ 94,664
Stockholders' equity	\$ 253,817	\$ 226,725	\$ 205,843	\$ 312,468	\$ 261,925

(1) Kforce recognized a goodwill and intangible asset impairment charge of \$129.4 million during 2008. The tax benefit associated with this impairment charge was \$14.2 million, resulting in an after-tax impairment charge of \$115.2 million.

Acquisitions were made in our fiscal years ended December 31, 2008 and 2006. The results of operations for these acquisitions were included in our Consolidated Financial Statements from the respective acquisition date. See Note 7 Acquisitions to the Consolidated Financial Statements for more detail on acquisitions made in 2008. During the three months ended June 30, 2008, Kforce sold its Scientific and per-diem Nursing business and completed efforts to wind down the remaining operations of its non per-diem Nursing business. As a result, the results of operations of Scientific and Nursing have been presented as discontinued operations for the years ended December 31, 2008, 2007 and 2006. See Note 2 Discontinued Operations to the Consolidated Financial Statements for more detail.

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Item 7. 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. MD&A is provided as a supplement to - and should be read in conjunction with - our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8. Financial Statements and Supplementary Data of this report as well as Item 1. Business of this report for an overview of our operations and business environment. This overview summarizes the structure of our MD&A, which includes the following sections:

Executive Summary a summary of our 2010 results.

Critical Accounting Estimates a discussion of the accounting estimates that are most critical to aid in 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 consolidated results of operations for the three years presented in our Consolidated Financial Statements. In order to assist the reader in understanding our business as a whole, certain metrics are presented for each of our four operating segments.

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

During 2008, Kforce sold its Scientific and per-diem Nursing businesses. See Note 2 Discontinued Operations to the Consolidated Financial Statements for a more detailed discussion. The results presented in the accompanying consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2008 include activity relating to the Scientific and Nursing businesses as discontinued operations. Except as specifically noted, our discussions below exclude any activity related to the Scientific and Nursing businesses, which are addressed separately in the discussion of income from discontinued operations, net of income taxes.

EXECUTIVE SUMMARY

The following is an executive summary of what Kforce believes are important 2010 highlights, which should be considered in the context of the additional discussions herein and in conjunction with the Consolidated Financial Statements and notes thereto. We believe such highlights are as follows:

Net service revenues increased 8.9% to \$990.8 million in 2010 from \$910.1 million in 2009. Net service revenues increased 15.1% for Tech and 14.9% for FA and decreased 1.8% for HLS and 9.9% for GS.

Flex revenues increased 7.9% to \$951.4 million in 2010 from \$881.7 million in 2009.

Search revenues increased 38.6% to \$39.4 million in 2010 from \$28.4 million in 2009.

Flex gross profit margin decreased 50 basis points to 28.7% in 2010 from 29.2% in 2009. Flex gross profit margin increased 50 basis points for Tech, decreased 110 basis points for FA and 360 basis points for GS, and was flat for HLS.

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SG&A as a percentage of revenues for the year ended December 31, 2010 was 26.8% compared to 27.6% in 2009.

Net income increased 60.3% to \$20.6 million in 2010 from \$12.9 million in 2009.

The total amount outstanding under the Credit Facility increased \$7.8 million to \$10.8 million as of December 31, 2010 from \$3.0 million as of December 31, 2009. As a result of the expiration date of the current Credit Facility, we have classified outstanding borrowings under the Credit Facility as a current liability in our Consolidated Financial Statements as of December 31, 2010.

Diluted earnings per share increased 54.5% to \$0.51 in 2010 from \$0.33 in 2009.

Table of Contents**CRITICAL ACCOUNTING ESTIMATES**

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). In connection with the preparation of our Consolidated 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 1 - Summary of Significant Accounting Policies to the Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K. Management believes that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Allowance for Doubtful Accounts, Fallouts and Other Accounts Receivable Reserves		
See Note 1 - Summary of Significant Accounting Policies to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K, for a complete discussion of our policies related to determining our allowance for doubtful accounts, fallouts and other accounts receivable reserves.	Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, changes in economic conditions, a specific analysis of material accounts receivable balances that are past due, and concentration of accounts receivable among clients, in establishing its allowance for doubtful accounts.	We have not made any material changes in the accounting methodology used to establish our allowance for doubtful accounts, fallouts and other accounts receivable reserves. As of December 31, 2010 and 2009, the allowance was 2.6% and 5.1% as a percentage of gross accounts receivable, respectively.
	Kforce estimates its allowance for Search fallouts based on our extensive historical experience with the actual occurrence of fallouts.	We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our allowance for doubtful accounts. However, if our estimates regarding estimated accounts receivable losses are inaccurate, we may be exposed to losses or gains that could be material. A 10% difference in actual accounts receivable losses reserved for at December 31, 2010, would have impacted our net income for 2010 by approximately \$0.4 million.
	Kforce estimates its reserve for future revenue adjustments (e.g. bill rate adjustments, time card adjustments) based on our historical experience.	
		Although we do not believe that there is a reasonable likelihood that there will be a material change in the actual occurrence of fallouts, a 10% difference in our actual

fallout experience reserved for at December 31, 2010, would have impacted our net income for 2010 by less than \$0.1 million.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Goodwill Impairment		
<p>We evaluate goodwill for impairment annually or more frequently whenever events and circumstances indicate that the carrying value of the goodwill may not be recoverable. See Note 6 - Goodwill and Other Intangible Assets to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of the valuation methodology employed.</p>	<p>We determine the fair value of our reporting units using widely accepted valuation techniques, including discounted cash flow, market multiple analyses and market transactions analyses. These types of analyses contain uncertainties because they require management to make significant assumptions and judgments including: (i) an appropriate rate to discount the expected future cash flows, (ii) the inherent risk in achieving forecasted operating results, (iii) long-term growth rates, (iv) expectations for future economic cycles and (v) market multiples.</p>	<p>We have not made any material changes in our goodwill impairment assessment methodology during the past three fiscal years.</p>
<p>We completed our annual assessment of goodwill impairment as of December 31, 2010 using the methodology described therein and determined there was no impairment.</p>	<p>It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations.</p>	<p>Impairment was not indicated for any of our reporting units based on the results of the first step of the goodwill impairment assessment as of December 31, 2010. The fair value for Tech, FA, HLS and GS reporting units exceeded their carrying values by 59%, 107%, 58% and 17%, respectively.</p>
<p>The carrying value of goodwill as of December 31, 2010 was \$138.1 million.</p>		<p>As a result of the 17% gap between the fair value and carrying value of our GS reporting unit, we performed a sensitivity analysis by independently modifying the discount rate, long-term growth rate and forecasted operating results, each of which did not indicate impairment. Given this, we do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill and other intangible assets. However, if actual results are materially inconsistent with our estimates or assumptions, we may be exposed to impairment charges that could be material.</p>
Accounting for Business Combinations		
<p>In accordance with accounting for business combinations, we allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill.</p>	<p>Our purchase price allocation methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities. Management estimates the fair value of assets and liabilities based upon quoted market prices, the carrying value of the acquired assets and widely accepted valuation techniques, including discounted cash flows and market multiple analyses.</p>	<p>See Note 7 - Acquisitions to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for the purchase price allocation calculations as well as a description of the methods used to value the identifiable intangible assets.</p>
<p>We use all available information to estimate fair values and we adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date as we obtain more information regarding asset valuations and</p>		<p>We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to complete the</p>

liabilities assumed.

During the last three fiscal years, we have completed one acquisition.

Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if future results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Self-Insured Liabilities		
<p>We are self-insured for certain losses related to health insurance and workers compensation claims. However, we obtain third-party insurance coverage to limit our exposure to these claims.</p>	<p>Our self-insured liabilities contain uncertainties because management is required to make assumptions and to apply judgment to estimate the ultimate total cost to settle reported claims and claims incurred but not reported as of the balance sheet date.</p>	<p>We have not made any material changes in the accounting methodology used to establish our self-insured liabilities during the past three fiscal years.</p>
<p>When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, plan structure, internal claims management activities, demographic factors and severity factors. Periodically, management reviews its assumptions to determine the adequacy of our self-insured liabilities.</p>		<p>We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p>
<p>Our liabilities for health insurance and workers compensation claims as of December 31, 2010 were \$3.5 million and \$1.7 million, respectively.</p>		<p>A 10% change in our self-insured liabilities related to health insurance and workers compensation as of December 31, 2010 would have impacted our net income for 2010 by approximately \$0.5 million.</p>
Stock-Based Compensation		
<p>We have stock-based compensation plans, which includes options, stock appreciation rights and unvested share awards and an employee stock purchase plan. See Note 1 - Summary of Significant Accounting Policies, Note 12 - Employee Benefit Plans, and Note 14 - Stock Incentive Plans to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of our stock-based compensation programs.</p>	<p>Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, risk-free rates, future employee turnover rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the estimate of fair value.</p>	<p>We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material or the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based compensation.</p>
<p>We determine the fair value of our stock option awards and stock appreciation rights (SARs) at the date of grant using widely accepted option-pricing models such as Black-Scholes. We determine the fair market value of our restricted stock (RS) and performance accelerated restricted stock (PARS) based on the closing stock price of Kforce s common stock at the date of grant. We also utilize a lattice model to determine the derived service period for our SARs and PARS, which contain a market condition.</p>	<p>RS and PARS require management to make assumptions regarding the likelihood of achieving any performance conditions as well as employee turnover rates.</p> <p>SARs and PARS also have certain market conditions, which are inherently difficult to estimate but are modeled using a Monte Carlo simulation model.</p>	<p>A 10% change in our stock-based compensation expense would have impacted our net income for 2010 by approximately \$0.6 million.</p>

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>Defined Benefit Pension Plan U.S.</p> <p>We have a defined benefit pension plan that benefits certain named executive officers, the Supplemental Executive Retirement Plan (SERP). See Note 12 - Employee Benefit Plans to the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of the terms of this plan.</p>	<p>When estimating the obligation for our pension and postretirement benefit plans, management is required to make certain assumptions and to apply judgment with respect to determining an appropriate discount rate, bonus percentage assumptions and expected future compensation increases for the participants in the plan.</p>	<p>We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our obligation. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p> <p>A 10% change in the discount rate used to measure the net periodic pension cost for the SERP during 2010 would have had an insignificant impact on our net income for 2010.</p>
<p>Accounting for Income Taxes</p> <p>See Note 4 - Income Taxes to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of the components of Kforce income tax expense as well as the temporary differences that exist as of December 31, 2010.</p>	<p>Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we conduct business. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions, including those that may be uncertain.</p>	<p>We do not believe that there is a reasonable likelihood that there will be a material change in our liability for uncertain income tax positions or our effective income tax rate. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses that could be material.</p>
	<p>Kforce is also required to exercise judgment with respect to the realization of our net deferred tax asset.</p>	<p>A 0.50% change in our effective income tax rate from continuing operations would have impacted our net income for 2010 by approximately \$0.2 million.</p>

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 or not to move ahead with a mandate for the required use of IFRS for U.S. public companies as well as an estimated timeline.

In October 2009, the FASB issued guidance related to multiple-deliverable revenue arrangements. This guidance requires entities to allocate revenues in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenues to be allocated using the relative selling price method. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our future Consolidated Financial Statements.

Table of Contents**RESULTS OF OPERATIONS**

Net service revenues for the years ended December 31, 2010 and 2009 were \$990.8 million and \$910.1 million, respectively, which represents an increase of 8.9%. The increase was primarily due to our Tech (which represents approximately 54% of our total net service revenues) and FA segments (which represents approximately 19% of our net service revenues), which had year-over-year increases in net service revenues of 15.1% and 14.9%, respectively. Net service revenues for HLS declined 1.8% primarily as a result of cost-cutting initiatives of large pharmaceutical companies and delays in hiring activity resulting from several mergers. Our GS segment experienced a 9.9% decline in net service revenues, which was primarily attributable to continued delays in the timing of project awards as well as the trend by the Federal Government to in-source certain functions in an attempt to reduce expenditures.

Flex gross profit margins decreased 50 basis points to 28.7% compared to 29.2% for the years ended December 31, 2010 and 2009, respectively. Kforce experienced declines in Flex gross profit margins across all segments with the exception of Tech, which increased 50 basis points on a year-over-year basis. The decreases experienced in most segments were primarily attributable to the compression in the spread between our bill and pay rates as well as higher payroll taxes, particularly unemployment taxes. SG&A expenses as a percentage of net service revenues were 26.8% and 27.6% for the years ended December 31, 2010 and 2009, respectively.

From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which increased during the year ended December 31, 2010 as compared to 2009 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 9.4% as of December 2010, temporary employment has expanded by 495,000 jobs since reaching a low in September 2009. In addition, the penetration rate (the percentage of temporary staffing to total employment) has increased 15 consecutive months from its low of 1.32% in August 2009 to over 1.7% in November 2010. 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 cautiously 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. Consistent with this trend, we have seen recent increases in Search activity. Search revenues increased 38.6% for 2010 compared to 2009. We believe these increases reflect clients rebuilding staff after significant reductions during 2008 and 2009. We expect this growth trend may flatten in the near term, which may be reflective of the completion of the initial stage of our clients rebuilding their full-time staff and a secular shift to a flexible staffing model.

We have utilized the most recent economic downturn to undertake several significant initiatives including (i) further developing and optimizing our NRC and Strategic Accounts teams in support of our field population, (ii) restructuring both our back office and field operations under our Shared Services program, (iii) upgrading our corporate systems (primarily our front end and time collection systems) and (iv) making other technology investments designed to increase the productivity of our field associates. We believe that these investments have increased our operating efficiency and enabled us to be more responsive to our clients as well as provided for a better operating platform to support the 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 domestic, will also be a key contributor to our long-term financial stability.

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Net Service Revenues. The following table sets forth, as a percentage of net service revenues, certain items in our consolidated statements of operations for the years ended:

	2010	December 31, 2009	2008
Revenues by Segment:			
Tech	54.4%	51.4%	52.1%
FA	18.9	17.9	21.2
HLS	16.3	18.1	19.0
GS	10.4	12.6	7.7
Net service revenues	100.0%	100.0%	100.0%
Revenues by Time:			
Flex	96.0%	96.9%	93.4%
Search	4.0	3.1	6.6
Net service revenues	100.0%	100.0%	100.0%
Gross profit	31.5%	31.4%	34.6%
Selling, general and administrative expenses	26.8%	27.6%	41.7%
Income (loss) from continuing operations, before income taxes	3.5%	2.4%	(8.7)%
Income (loss) from continuing operations	2.1%	1.4%	(8.9)%
Net income (loss)	2.1%	1.4%	(8.4)%

The following table details net service revenues for Flex and Search revenues by segment and changes from the prior year.

(in \$000 s)	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Tech					
Flex	\$ 522,220	14.1%	\$ 457,544	(7.2)%	\$ 493,282
Search	16,346	59.0%	10,280	(61.3)%	26,585
Total Tech	\$ 538,566	15.1%	\$ 467,824	(10.0)%	\$ 519,867
FA					
Flex	\$ 165,831	13.4%	\$ 146,186	(16.0)%	\$ 174,039
Search	21,365	28.2%	16,670	(55.2)%	37,220
Total FA	\$ 187,196	14.9%	\$ 162,856	(22.9)%	\$ 211,259
HLS					
Flex	\$ 160,247	(2.0)%	\$ 163,481	(12.8)%	\$ 187,486
Search	1,666	14.7%	1,452	(33.4)%	2,180
Total HLS	\$ 161,913	(1.8)%	\$ 164,933	(13.0)%	\$ 189,666
GS					
Flex	\$ 103,132	(9.9)%	\$ 114,523	50.2%	\$ 76,225
Search					
Total GS	\$ 103,132	(9.9)%	\$ 114,523	50.2%	\$ 76,225

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Total Flex	\$ 951,430	7.9%	\$ 881,734	(5.3)%	\$ 931,032
Total Search	39,377	38.6%	28,402	(57.0)%	65,985
Total Revenues	\$ 990,807	8.9%	\$ 910,136	(8.7)%	\$ 997,017

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While quarterly comparisons are not fully discussed herein, certain quarterly revenue trends are referred to in discussing annual comparisons. Our quarterly operating results are affected by the number of billing days in a quarter, which is provided in the table below. This 2010 quarterly information is presented for this purpose only.

(in \$000 s, except Billing Days)	Three Months Ended			
	December 31	September 30	June 30	March 31
Billing Days	61	64	64	62
Flex Revenues				
Tech	\$ 138,467	\$ 137,326	\$ 129,961	\$ 116,466
FA	47,512	44,437	38,152	35,730
HLS	38,145	41,007	41,066	40,029
GS	23,313	26,190	27,091	26,538
Total Flex	\$ 247,437	\$ 248,960	\$ 236,270	\$ 218,763
Search Revenues				
Tech	\$ 4,402	\$ 4,604	\$ 4,130	\$ 3,210
FA	5,937	5,733	5,282	4,413
HLS	719	222	455	270
Total Search	\$ 11,058	\$ 10,559	\$ 9,867	\$ 7,893
Total Revenues				
Tech	\$ 142,869	\$ 141,930	\$ 134,091	\$ 119,676
FA	53,449	50,170	43,434	40,143
HLS	38,864	41,229	41,521	40,299
GS	23,313	26,190	27,091	26,538
Total Revenues	\$ 258,495	\$ 259,519	\$ 246,137	\$ 226,656

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.

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 the candidate skill sets that are in demand, our great people and our operating model. A recent SIA report projected 10% growth in 2010 for the information technology staffing market while our Tech segment grew 15.1%. 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 customers 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 in 2011 within our Tech segment.

Our FA segment experienced an increase in net service revenues of 14.9% during the year ended December 31, 2010 compared to 2009. According to a recent SIA report, the overall finance and accounting segment was to expect modest growth of 4% in 2010 with 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 has been particularly effective in meeting the demand within the mortgage, refinancing and foreclosure space that has seen significant growth in 2010. We expect to see continued growth in 2011 within our FA segment.

Net service revenues for our HLS segment decreased 1.8% for the year ended December 31, 2010 compared to 2009. The Clinical Research business, which comprised approximately 64% of our HLS segment in 2010, experienced a 3.6% decrease in net service revenues during the year ended December 31, 2010 compared to 2009, which we believe reflects the wind down of a large project and also the cost-cutting initiatives of large pharmaceutical companies and delays in hiring activity resulting from several mergers within this sector. We expect that our Clinical Research business may experience modest growth as a result of the continued impact of these items; however, we believe in the long-term

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growth prospects of this business. The Health Information Management (HIM) business, which comprised approximately 36% of our HLS segment in 2010, consists primarily of professionals providing medical coding and transcription services to hospitals and other healthcare facilities. Net service revenues within HIM increased 1.5% in 2010 as hospital census and spending continued to increase. We expect to see continued growth in 2011 within HIM.

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Our GS segment experienced declining results for the year ended December 31, 2010 compared to 2009, which we believe is primarily a result of the macro-economic environment and political landscape. Since the change in the administration took place, our GS segment has been impacted by delays in the timing of project awards as well as a continuing trend by the Federal Government to in-source certain functions. 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 2009, approximately 60% (expressed as a percentage of 2009 revenues) of our GS segment's contracts were subject to the re-compete process. Historically, we have been successful in retaining contracts subject to the re-compete process although there can be no assurances that we will be as successful in the future. In 2010, management refocused its efforts on business development activities as the number of re-competes and the resources consumed related to the re-compete process have returned to normal levels. 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 customers of our GS segment. We expect net service revenues within our GS segment to be flat in 2011 as a result of the continuing trend of the Federal Government to in-source functions and Federal Government budgetary delays and cutbacks. We continue to believe in the long-term prospects of our GS segment.

The following table details total Flex hours for each segment and percentage changes over the prior period for the years ended December 31:

(in 000 s)	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Tech	8,333	14.1%	7,304	(4.0)%	7,606
FA	5,037	15.1%	4,378	(9.5)%	4,840
HLS	1,971	5.2%			