KFORCE INC
Form 10-Q
August 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 000-26058

Kforce Inc.

(Exact name of registrant as specified in its charter)

FLORIDA	**59-3264661**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1001 East Palm Avenue TAMPA, FLORIDA	**33605**
(Address of principal executive offices)	**(Zip-Code)**

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

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

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KFORCE INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2011

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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 otherw requires.

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

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*.

KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

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

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT

OF CHANGES IN STOCKHOLDERS EQUITY

(IN THOUSANDS)

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

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

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

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

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

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

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

Basis of Presentation

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

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

Principles of Consolidation

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

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

Use of Estimates

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

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Cash and Cash Equivalents

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

Accounts Receivable Reserves

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

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

Revenue Recognition

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

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

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

- Revenues for time and materials contracts, which accounts for approximately 59% of this segment s revenue, are recorded based on contractually-established billing rates at the time services are provided.

- Revenues on fixed-price contracts are recognized on the basis of the estimated percentage-of-completion. Approximately 31% of this segment s revenues are recognized under this method. Progress towards completion is typically measured based on costs incurred as a proportion of estimated total costs or other measures of progress when available. Profit in a given period is reported at the expected profit margin to be achieved on the overall contract.

Direct Costs of Services

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

Income Taxes

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

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

Fair Value Measurements

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

Fixed Assets

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

Impairment of Long-Lived Assets

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

Goodwill and Other Intangible Assets

Goodwill

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

Other Intangible Assets

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

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

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

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Capitalized Software

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

Commissions

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

Stock-Based Compensation

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

Accounting for Postretirement Benefits

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

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

Workers Compensation

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

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

Health Insurance

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

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Taxes Assessed by Governmental Agencies Revenue Producing Transactions

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

Business Combinations

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

Earnings per Share

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

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

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

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

Treasury Stock

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

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Comprehensive Income

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

Subsequent Events

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

New Accounting Standards

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

Note B Commitments and Contingencies

Litigation

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

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

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

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

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Employment Agreements

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

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

Note C Employee Benefit Plans

Foreign Pension Plan

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

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

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

Supplemental Executive Retirement Plan

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

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

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

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

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

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

Supplemental Executive Retirement Health Plan

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

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

Note D Stock Incentive Plans

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

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

Stock Options

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

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

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

Stock Appreciation Rights

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

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

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

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

Performance Accelerated Restricted Stock

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

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

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

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

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

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

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Restricted Stock

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

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

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

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

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

Note E Goodwill and Other Intangible Assets

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

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

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

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

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Goodwill Impairment Considerations

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

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

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

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

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

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Note F Reportable Segments

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

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

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

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

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

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

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

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

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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NEW ACCOUNTING STANDARDS

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

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2011 and 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,
	2011	Increase (Decrease)	