

KFORCE INC
Form 10-Q
July 30, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 000-26058

Kforce Inc.

(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction
of incorporation or organization)

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

1001 East Palm Avenue
TAMPA, FLORIDA
(Address of principal executive offices)
Registrant's telephone number, including area code: (813) 552-5000

33605
(Zip-Code)

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) had been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of July 29, 2008, was 38,772,738.

Table of Contents**KFORCE INC.****QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008****TABLE OF CONTENTS****PART I FINANCIAL INFORMATION**

| | | |
|---------|--|----|
| Item 1. | <u>Financial Statements</u> | 3 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 26 |
| Item 4. | <u>Controls and Procedures</u> | 26 |

PART II OTHER INFORMATION

| | | |
|----------|--|----|
| Item 1. | <u>Legal Proceedings</u> | 27 |
| Item 1A. | <u>Risk Factors</u> | 27 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 27 |
| Item 3. | <u>Defaults Upon Senior Securities</u> | 27 |
| Item 4. | <u>Submission of Matters to a Vote by Security Holders</u> | 28 |
| Item 5. | <u>Other Information</u> | 28 |
| Item 6. | <u>Exhibits</u> | 28 |
| | <u>SIGNATURES</u> | 29 |
| | <u>SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS</u> | |

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

This document contains forward-looking statements, particularly with respect to Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A). Additional written or oral forward-looking statements may be made by Kforce from time to time, in filings with the Securities and Exchange Commission (SEC) or otherwise. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements may include, but may not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, future prospects, anticipated costs and benefits of proposed (or future) acquisitions, integration of acquisitions, plans for future operations, capabilities of business operations, effects of interest rate variations, financing needs or plans, plans relating to products or services of Kforce, estimates concerning the effects of litigation or other disputes, as well as assumptions 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 MD&A section. In addition, when used in this discussion, the terms anticipates, estimates, expects, intends, plans, believes, will, may, should and variations of similar expressions are intended to identify forward-looking statements.

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

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 30, 2008 | June 30, 2007 | June 30, 2008 | June 30, 2007 |
| Flexible billings | \$ 235,182 | \$ 223,896 | \$ 467,421 | \$ 441,090 |
| Search fees | 19,951 | 19,558 | 37,724 | 38,266 |
| Net service revenues | 255,133 | 243,454 | 505,145 | 479,356 |
| Direct costs of services | 163,769 | 154,721 | 327,766 | 307,180 |
| Gross profit | 91,364 | 88,733 | 177,379 | 172,176 |
| Selling, general and administrative expenses | 78,697 | 68,422 | 149,078 | 133,916 |
| Depreciation and amortization | 3,670 | 3,498 | 7,622 | 6,958 |
| Income from operations | 8,997 | 16,813 | 20,679 | 31,302 |
| Other expense, net | 552 | 1,104 | 1,344 | 2,470 |
| Income from continuing operations before income taxes | 8,445 | 15,709 | 19,335 | 28,832 |
| Income tax expense | 3,330 | 6,222 | 7,600 | 11,405 |
| Income from continuing operations | 5,115 | 9,487 | 11,735 | 17,427 |
| Income from discontinued operations, net of income taxes | 3,585 | 1,090 | 4,143 | 1,945 |
| Net income | 8,700 | 10,577 | 15,878 | 19,372 |
| Other comprehensive loss: | | | | |
| Defined benefit pension plan actuarial loss, net of tax | 386 | | 386 | |
| Comprehensive income | \$ 8,314 | \$ 10,577 | \$ 15,492 | \$ 19,372 |
| Earnings per share basic: | | | | |
| From continuing operations | \$.13 | \$.23 | \$.29 | \$.42 |
| From discontinued operations | .09 | .03 | .10 | .05 |
| Earnings per share basic | \$.22 | \$.26 | \$.39 | \$.47 |
| Earnings per share diluted: | | | | |
| From continuing operations | \$.13 | \$.22 | \$.29 | \$.41 |
| From discontinued operations | .09 | .03 | .10 | .05 |
| Earnings per share diluted | \$.22 | \$.25 | \$.39 | \$.46 |

Edgar Filing: KFORCE INC - Form 10-Q

| | | | | | |
|-------------------------------------|---------|--------|--------|--------|--------|
| Weighted average shares outstanding | basic | 39,832 | 41,193 | 40,229 | 41,093 |
| Weighted average shares outstanding | diluted | 40,317 | 42,407 | 40,631 | 42,217 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**KFORCE INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS***(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)*

| | June 30, 2008 | December 31, 2007 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 2,056 | \$ 1,083 |
| Trade receivables, net of allowance for doubtful accounts and fallouts of \$3,331 and \$3,002 respectively | 151,282 | 166,777 |
| Income tax refund receivable | 462 | 377 |
| Deferred tax asset, net | 8,634 | 8,409 |
| Prepaid expenses and other current assets | 6,755 | 4,268 |
| Total current assets | 169,189 | 180,914 |
| Fixed assets, net | 14,564 | 13,355 |
| Other assets, net | 32,767 | 31,982 |
| Intangible assets, net | 9,921 | 12,276 |
| Goodwill | 235,477 | 237,609 |
| Total assets | \$ 461,918 | \$ 476,136 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and other accrued liabilities | \$ 25,438 | \$ 25,222 |
| Accrued payroll costs | 51,498 | 53,613 |
| Other current debt | 2,062 | 3,859 |
| Income taxes payable | 2,855 | 2,872 |
| Total current liabilities | 81,853 | 85,566 |
| Long-term debt - credit facility | 33,000 | 50,330 |
| Long-term debt - other | 2,528 | 2,670 |
| Deferred tax liability, net | 6,891 | 6,624 |
| Other long-term liabilities | 20,508 | 18,478 |
| Total liabilities | 144,780 | 163,668 |
| 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, 60,931 and 60,919 issued, respectively | 609 | 609 |
| Additional paid-in capital | 319,884 | 310,165 |
| Accumulated other comprehensive loss | (386) | |
| Retained earnings | 128,458 | 112,580 |
| Treasury shares at cost; 21,714 and 19,365 shares, respectively | (131,427) | (110,886) |
| Total stockholders' equity | 317,138 | 312,468 |
| Total liabilities and stockholders' equity | \$ 461,918 | \$ 476,136 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

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

| | Six Months Ended June 30, 2008 |
|--|---|
| Common stock - shares: | |
| Shares at beginning of period | 60,919 |
| Exercise of stock options | 12 |
| Shares at end of period | 60,931 |
| Common stock - par value: | |
| Balance at beginning of period | \$ 609 |
| Exercise of stock options | |
| Balance at end of period | \$ 609 |
| Additional paid-in-capital: | |
| Balance at beginning of period | \$ 310,165 |
| Exercise of stock options | 75 |
| Income tax deficiency attributable to stock-based compensation | (75) |
| Stock-based compensation | 9,568 |
| Employee stock purchase plan | 151 |
| Balance at end of period | \$ 319,884 |
| Accumulated other comprehensive loss: | |
| Balance at beginning of period | \$ |
| Pension adjustment, net of tax | (386) |
| Balance at end of period | \$ (386) |
| Retained earnings: | |
| Balance at beginning of period | \$ 112,580 |
| Net income | 15,878 |
| Balance at end of period | \$ 128,458 |
| Treasury stock - shares: | |
| Shares at beginning of period | 19,365 |
| Repurchases of common stock | 2,400 |
| Employee stock purchase plan | (51) |
| Shares at end of period | 21,714 |
| Treasury stock - cost: | |
| Balance at beginning of period | \$ (110,886) |

Edgar Filing: KFORCE INC - Form 10-Q

| | |
|------------------------------|--------------|
| Repurchases of common stock | (20,838) |
| Employee stock purchase plan | 297 |
| Balance at end of period | \$ (131,427) |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

| | Six Months Ended | |
|---|-------------------------|----------------------|
| | June 30, 2008 | June 30, 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 15,878 | \$ 19,372 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Deferred income tax provision, net | 324 | 4,645 |
| Gain on sale of discontinued operations | (5,938) | |
| Depreciation and amortization | 7,622 | 6,958 |
| Stock-based compensation | 9,568 | 1,620 |
| Provision for bad debts on accounts receivable and fallouts | 1,707 | 1,121 |
| Supplemental executive retirement plans expense | 1,363 | 880 |
| Amortization of alternative long-term incentive award | | 938 |
| Deferred compensation liability (decrease) increase, net | (1,171) | 935 |
| Tax benefit attributable to option exercises | 24 | 1,148 |
| Excess tax benefit attributable to option exercises | | (716) |
| Loss (gain) on cash surrender value of company-owned life insurance | 1,465 | (1,113) |
| Loss (gain) on asset sales/disposals | 167 | (422) |
| (Increase) decrease in operating assets: | | |
| Trade receivables | 10,680 | (18,838) |
| Income tax refund receivable | (85) | (1,116) |