KFORCE INC
Form 10-K
March 08, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**(MARK ONE)**

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

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

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

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

**Common Stock, $0.01 par value**

**(Title of class)**

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer 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 Act.): Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter, June 30, 2011, was approximately $441,783,030. For purposes of this determination, common stock held by each officer and director and by each person who owns 10% or more of the registrant s outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant s common stock as of March 6, 2012, was 38,140,274.

DOCUMENTS INCORPORATED BY REFERENCE:

| **Document** | **Parts Into Which Incorporated** |
|---|---|
| Portions of Proxy Statement for the Annual Meeting of Shareholders scheduled to be held June 19, 2012 ( Proxy Statement ) | Part III |

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**KFORCE INC.**

**ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

This report, particularly Item 1. Business, Item 1A. Risk Factors, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ), and the documents we incorporate into this report, contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements may include, but may not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, future prospects, anticipated costs and benefits of proposed (or future) acquisitions, integration of acquisitions, plans for future operations, capabilities of business operations, effects of interest rate variations, our ability to obtain financing and favorable terms, financing needs or plans, plans relating to services of Kforce, estimates concerning the effects of litigation or other disputes, estimates concerning our ability to collect on our accounts receivable, expectations of the economic environment, developments within the staffing sector including, but not limited to, the penetration rate and growth in temporary staffing, as well as assumptions as to any of the foregoing and all statements that are not based on historical fact but rather reflect our current expectations concerning future results and events. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and MD&A sections. In addition, when used in this discussion, the terms anticipates, estimates, expects, intends, plans, believes, will, may, should and variations thereof and similar expressions are intended to identify 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.

# PART I

## Item 1. *Business.*

*Company Overview*

We are a national provider of professional and technical specialty staffing services and solutions and operate through our corporate headquarters in Tampa, Florida as well as our 62 field offices, which are located throughout the United States, and an office in Manila, Philippines. Kforce, a Florida corporation, was incorporated in 1994 but its predecessor companies, Source Services Corporation and Romac & Associates, Inc. have been providing staffing services since 1962. Kforce completed its Initial Public Offering in August 1995.

We provide our clients staffing services and solutions through five operating segments: Technology ( Tech ), Finance and Accounting ( FA ), Clinical Research ( KCR ), Health Information Management ( HIM ) and Government Solutions ( GS ). Kforce organizes and manages its Tech and FA segments on a regional basis: Atlantic, North and West. Our Tech segment includes the results of Kforce Global Solutions, Inc. ( Global ), a wholly-owned subsidiary, which has an office in the Philippines. We believe this operational alignment supports a more customer-centric organization, leverages our best leaders, leverages client relationships across functional offerings, and streamlines the organization by placing senior management closer to the customer. Our KCR and HIM segments, which were aggregated in previous filings as Health and Life Sciences, are reported as separate operating segments for 2011 due to recent and then-projected economic dissimilarities including revenue and gross profit trends, operating environment, and business drivers. KCR, HIM and GS segments are organized and managed by specialty because of the unique operating characteristics of each business.

The following charts depict the percentage of our total revenues for each of our segments for the years ended December 31, 2011 and 2010:

*Tech*

We provide both temporary staffing and permanent placement services to our clients, focusing primarily on areas of information technology including, but not limited to, systems/applications programmers and developers, senior-level project managers, systems analysts, enterprise data management and e-business and networking technicians. The average bill rate for our Tech segment for 2011 was approximately $63.00 per hour. Our Tech segment provides service to clients in a variety of industries with a strong footprint in healthcare, financial services and government integrators. A recent report published by Staffing Industry Analysts ( SIA ) stated the ideal climate has been created for continued growth in the information technology staffing market resulting from a shortage of information technology workers with specialized skills and a demand for technical projects. The report anticipates that 2012 revenues generated from U.S. temporary staffing in the technology sector will surpass the prior peak set in 2000 during the height of the dot-com boom. The U.S. Bureau of Labor Statistics ( BLS ) lists computer systems design and related services among the fastest-growing industries reflecting the continuing demand for the high-level skills that are needed to keep up with changes in technology.

We believe this segment continues to benefit from our centralized and highly elastic National Recruiting Center ( NRC ) as well as our Strategic Accounts ( SA ) strategy, which we believe will also provide significant leverage in supporting future growth. Our Tech segment includes the results of Global, a wholly-owned subsidiary. Global provides information technology outsourcing solutions internationally through an office located in the Philippines. Our international operations comprised approximately 2% of net service revenues for the three years ended December 31, 2011.

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*FA*

Our FA segment provides both temporary staffing and permanent placement services to our clients in areas such as: taxation, budget preparation and analysis, mortgage and loan processing, financial reporting, cost analysis, accounts payable, accounts receivable, professional administrative, credit and collections, general accounting, audit services, and systems and controls analysis and documentation to support compliance work under Section 404 of the Sarbanes-Oxley Act of 2002. Our FA segment provides service to clients in a variety of industries with a strong footprint in financial services and government integrators. The average bill rate for our FA segment for 2011 was approximately $34.00 per hour.

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

*KCR*

Our KCR segment is engaged in the business of providing functional outsourcing solutions for clinical research site monitoring as well as contingent contract staffing and permanent placement of clinical research personnel to pharmaceutical and biotechnology companies. Our KCR segment is also characterized by contracts and relationships that are typically longer term in nature as compared to our Tech and FA segments. A substantial portion of the sales, account management and recruiting functions for the KCR segment is provided out of our corporate headquarters. Over the last few years we have seen a trend, among larger pharmaceutical companies, to achieve greater efficiency and effectiveness through functional outsourcing to large, global clinical research organizations (CROs), which allows larger pharmaceutical companies to reduce the number of facilities and streamline vendor management efforts. Consistent with the recent consolidation that has occurred within the pharmaceutical sector, a material portion of revenues within KCR is concentrated in a relatively small number of clients. For the year ended December 31, 2011, the single largest client within the KCR segment comprised 50.5% of this segment s total revenues while representing 4.8% of total Kforce revenues. This client has informed us that it intends to migrate substantially all of the services performed by KCR to other vendors. This migration could be complete as early as December 2012. We are currently reassessing KCR s competitive position and, given the changing landscape in the pharmaceutical industry, we are exploring all strategic alternatives for our KCR business, including, without limitation, a possible sale, possible joint ventures to enable us to provide international services, possible acquisitions and the possibility of continuing to operate our KCR business on its present course while we observe and react to industry developments.

*HIM*

Our HIM segment provides both temporary staffing and permanent placements services to our clients which primarily consist of acute care facilities, physician clinics, software providers and insurance companies. Our HIM professionals provide services in areas such as: medical coding, the revenue life cycle and health information technology. According to SIA, a surge in health information technology and medical coding will continue through 2012 given requirements and deadlines for the International Statistical Classification of Diseases and Related Health Problems, $10^{th}$ edition ( ICD-10 ) conversion and electronic health record implementation, which should sustain a strong market opportunity. On February 16, 2012, the Department of Health and Human Services ( DHHS ) announced that the Federal Government will delay the required implementation date for the ICD-10 diagnostic and procedural coding system for an unspecified period of time. An announcement from the DHHS as to a new implementation date is pending. As with KCR, a substantial portion of the sales, account management and recruiting functions for the HIM segment is provided out of our corporate headquarters.

*GS*

The Federal Government is one of the largest consumers of information technology, spending approximately $79 billion in 2011 and budgeted to spend approximately $81 billion in 2012. Our GS segment provides Tech and FA professionals to the Federal Government, primarily as a prime contractor. GS also serves as a subcontractor to prime contractors, and we believe that our ability to source professional candidates for assignments, in combination with our prime contractor relationships, will allow us to pursue additional opportunities in this sector. GS offers integrated business solutions to its customers in areas such as: information technology, data and knowledge management, research and development, financial management and accounting, among other areas. Substantially all GS services are supplied to the Federal Government through field offices located in the Washington, D.C. and San Antonio, Texas areas. In 2011, GS began to offer its business solutions to the commercial sector in an effort to leverage existing skill sets within GS, thereby, diversifying its revenue stream. We believe the additional focus on the commercial sector will provide GS with the ability to better manage its risk and promote long-term growth of revenues.

*Types of Staffing Services*

Kforce s staffing services consist of temporary staffing services ( Flex ) and permanent placement services ( Search ). For the three years ended December 31, 2011, Search represented 4.0%, 4.0% and 3.1% of total Kforce revenue, respectively.

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*Flex*

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

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

*Search*

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

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

***Business Strategy***

The key elements of our business strategy include the following:

*Retain our Great People*. A significant focus of Kforce is on the retention of our tenured and top performing associates. We ended fiscal 2011 with a highly tenured management team and field sales team, which we believe will continue to enhance our ability to achieve future profitable growth.

*Continue to Develop and Optimize our NRC.* We believe our centralized NRC offers us a competitive advantage and that the NRC is particularly effective at increasing the quality and speed of delivery services to our clients, specifically Strategic Accounts as well as other demands for high volume staffing. The NRC identifies and interviews active candidates from nationally contracted job boards, Kforce.com, as well as other sources, then forwards qualified candidates to Kforce field offices to be matched to available positions. The NRC primarily supports our Tech and FA segments but is also expanding its support of our KCR, HIM and GS segments. Due to the significant demand for its resources, the optimization of the NRC in 2011 was a significant priority for the Firm, specifically its contribution to total Firm revenues through an intense focus on job order prioritization. A continuing focus will be on retention, training, ramping and development, which we expect will: (i) significantly enhance the performance of the NRC in meeting demand through additional contribution; (ii) enhance our efforts to support future growth and (iii) expand the NRC as our revenues increase.

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

*Optimization of Flex Margins*. As a result of the increases in statutory payroll taxes in recent years, particularly the Federal Unemployment Tax Act ( FUTA ) and the State Unemployment Tax Act ( SUTA ), we face increased challenges to maintain margins for consultants on assignment with both new and existing customers. We intend to address these challenges through the implementation of select bill rate increases as well as close management of consultant pay rates.

*Encourage Employee Achievement.* We focus on promoting and maintaining a quality-focused, results-oriented culture. Our field associates and corporate personnel are given incentives (which include competitions with significant prizes, incentive trips and internal recognition, in addition to bonuses) to encourage achievement of Kforce s corporate goals and high levels of service. During 2010, we implemented and went live with a business intelligence tool referred to as AMP!, which is an acronym for Actions Maximizing Performance, and expanded the platform in 2011 to include functionality for the NRC and SA teams. This metrics-based system has provided, and we expect will continue to provide, associates with current and historical performance measures relative to their Kforce peers, which we believe fuels healthy competition and assists associates in reaching their highest performance levels.

*Focus on Value-Added Services.* We focus on providing specialty staffing services and solutions to our clients. The placement of highly skilled personnel requires operational and technical skill to effectively recruit and evaluate personnel, match them to client needs, and manage the resulting relationships. We believe this strategy will serve to balance the desire for optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, consultants and the Firm. We concentrate resources among Tech, FA, KCR, HIM and GS to the areas of highest anticipated demand to adapt to the ever-changing landscape within the staffing industry. We believe our historical focus in these markets, combined with our staff s operating expertise, provides us with a competitive advantage.

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

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

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

*Leveraged Infrastructure*. A significant focus for Kforce is the continuous advancement of its front-end and back office technology infrastructure to improve efficiency and maintain a leveraged platform. We believe our continuous enhancement of our back office system software provides a competitive advantage through the enhancement of the efficiency and performance of our sales and delivery functions. We continue to focus on the continual improvement of our front-end systems and our back office systems, including our time collection and billing systems.

### *Industry Overview*

We serve Fortune 1000 companies, the Federal Government, state and local governments, local and regional companies, and small to mid-sized companies. Our 10 largest clients represented 24.9% of revenues and no single customer accounted for more than 4.8% of revenues for the year ended December 31, 2011. The specialty staffing industry is made up of thousands of companies, most of which are small local firms providing limited service offerings to a relatively small local client base. We believe Kforce is one of the 10 largest publicly-traded specialty staffing firms in the United States. According to a recent report by SIA, 98 companies reported at least $100 million in U.S. staffing revenues in 2010. Competition in a particular market can come from many different companies, both large and small. We believe, however, that our geographic presence, diversified service offerings, centralized NRC, SA team, focus on consistent service and delivery and effective job order prioritization, all provide a competitive advantage, particularly with clients that have operations in multiple geographic markets. In addition, we believe that our diversified portfolio of service offerings is primarily concentrated in areas with significant growth opportunities in both the short and long term.

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Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for substantial additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. We also believe that Flex demand generally increases before demand for permanent placements increases given that companies tend to prefer a flexible staffing model in the early stages of an economic recovery to ensure its sustainability. From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which increased in 2011. The penetration rate (the percentage of temporary staffing to total employment), increased slightly in 2011 after growing significantly in 2010. While we believe the macro-employment picture continues to be relatively weak with the unemployment rate at 8.5% as of December 2011, non-farm payroll expanded by 200,000 jobs in December 2011. Additionally, non-farm payroll growth remained positive for 15 consecutive months through December 2011. If the penetration rate of temporary staffing experiences growth in the coming years, which is anticipated by some economists and analysts, we believe that our Flex revenues can grow significantly even in a relatively modest growth macro-economic environment. Management remains cautiously optimistic about the growth prospects of the temporary staffing industry, the penetration rate and in particular our revenue portfolio.

According to an industry report, the United States temporary staffing industry generated estimated revenues of $94.5 billion in 2008, $71.2 billion in 2009 and $80.0 billion in 2010; with projected revenues of $87.8 billion in 2011 and $93.8 billion in 2012. Of course, no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular.

Although the results of operations in the GS segment were anticipated to have better long-term growth stability during variable economic cycles, we believe our GS segment was significantly impacted in 2011 by the political landscape, including the U.S. Congress s inability to pass the 2011 U.S. federal budget and its continuing to operate under a series of seven continuing resolutions thereby continuing funding at or less than 75% of 2010 levels, and the macro-economic environment. The 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. Additionally, 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. Further impacting 2011, modifications to the Federal Acquisition Reform Act of 1996 redirected funds to small business set-asides away from larger prime contractors and emphasized a lower-cost strategy as compared to a best-value approach. The U.S. Congress s inability to pass the 2011 U.S. federal budget and its continuing to operate under a series of seven CRAs thereby continuing funding at or less than 75% of 2010 levels may negatively impact the GS segment s 2012 performance. Despite the near-term challenges, however, we remain optimistic concerning the GS segment s long-term prospects.

***Technology***

A significant focus for Kforce is the continuous advancement of its front-end and back office technology infrastructure to improve efficiency and maintain a leveraged platform. We believe our continuous enhancement of our back office system software provides a competitive advantage through the enhancement of the efficiency and performance of our sales and delivery functions. We continue to focus on the continual improvement of our front-end systems and our back office systems, including our time collection and billing systems. The more significant investments in 2011 were as follows:

- Clinical Monitoring Management ( CMM/KIX ) this front-end custom tool provides rules-based capacity forecasting, workforce management, time & expense entry, and quality oversight for both our customers and consultants. We believe it will help to define the future of site management/monitoring and enhance our reporting capabilities for more effective productivity tracking.

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

We expect to continue to invest in our infrastructure, as we believe it will provide for a sufficient return on capital and support the future growth in our business.

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

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*Trade Names and Trademarks*

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

*Regulatory Environment*

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

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

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

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

*Competition*

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

In addition, many companies utilize Vendor Management Systems ( VMS ) for the purchase of staffing services. Generally, VMS are systems that allow companies to manage service providers. Industry data shows that larger, more sophisticated companies are more likely to add VMS. VMS usage is projected to increase to 83% in 2012 up from 75% in 2011 and 80% in 2010. Typically, VMS providers charge staffing firms administrative fees of 1% to 3% of total service revenues, and these fees are usually recorded by staffing firms as a cost of services, thereby compressing their profit margins. While Kforce does not currently provide VMS directly to its clients, our strategy has been and is expected to continue to be to work with VMS providers to enable us to extend our Flex staffing services to the widest customer base possible within the sectors we serve.

In the United States, there are 98 staffing firms with more than $100 million in U.S. staffing revenues in operation and thousands of smaller organizations compete to varying degrees at local levels according to an SIA report. Several similar companies global, national, and local compete in foreign markets. Our peer group for 2011, which is composed of some of our largest competitors, included: AMN Healthcare Services, CDI Corporation, Ciber, Inc., Kelly Services Inc., On Assignment Inc., Resources Connection, Inc., Robert Half International Inc., SFN Group, Inc. (which was acquired in September 2011 by Ranstad Holding nv.), and Volt Information Sciences Inc.

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

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***Seasonality of Operating Results***

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers businesses. The majority of our operating segments, especially KCR, HIM and GS, are significantly impacted by the increase in the number of holidays and vacation days taken during the fourth quarter of the calendar year. In addition, we experience an increase in direct costs of services and a corresponding decrease in gross profit in the first fiscal quarter of each year, as a result of certain annual U.S. state and federal employment tax resets that occur at the beginning of each year.

***Insurance***

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

***Financial Information about Foreign and Domestic Operations***

Substantially all of Kforce s revenues are derived from domestic operations with customers located in the United States and substantially all long-lived assets are located in the United States for the three years ended December 31, 2011. One of our subsidiaries, Global, provides outsourcing services internationally through an office in Manila, Philippines. Our international operations comprised approximately 2% of net service revenues for the three years ended December 31, 2011.

***Financial Information about Business Segments***

We provide our clients staffing services and solutions through five operating segments: Tech, FA, KCR, HIM and GS. For segment financial data see Note 14 Reportable Segments to the Consolidated Financial Statements.

***Operating Employees and Personnel***

As of December 31, 2011, Kforce employed approximately 2,200 associates and had approximately 11,100 consultants on assignment ( Flexible Consultants ) providing flexible staffing services and solutions to our clients. Approximately 90% of the Flexible Consultants are employed directly by Kforce ( Flexible Employees ); the balance consists of individuals who are employed by other entities ( Independent Contractors ) that provide their employees as subcontractors to Kforce for assignment to its clients. As the employer, Kforce is responsible for the operating employees and Flexible Employees payrolls and the employer s share of applicable social security taxes ( FICA ), federal and state unemployment taxes, workers compensation insurance, and other direct labor costs relating to our employees. We offer access to various health, life and disability insurance programs and other benefits for operating employees and Flexible Employees. We have no collective bargaining agreements covering any of our operating employees or Flexible Employees, have never experienced any material labor disruption, and are unaware of any current efforts or plans to organize any of our employees.

***Availability of Reports and Other Information***

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

**Item 1A.** ***Risk Factors.***

**Kforce faces significant employment-related legal risk.**

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

**A continued trend by large pharmaceutical companies towards functional outsourcing to large, global clinical research organizations (CROs) could have a material adverse effect on the operations of KCR and Kforce.**

Over the last few years we have seen a trend, among larger pharmaceutical companies, to achieve greater efficiency and effectiveness through functional outsourcing to large, global clinical research organizations (CROs) with international capabilities. KCR s operations are substantially limited to North America, creating the risk of clients selecting other globally capable organizations for their future needs. This trend could have a material adverse effect on the operations of KCR and Kforce.

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

In the ordinary course of our business, we collect and retain personal information of our associates and flexible employees and their dependants including, without limitation, full names, social security numbers, addresses, birth dates, and payroll-related information. We also have access to, receive and use personal health information of patients and drug trial subjects in the ordinary course of our KCR and HIM businesses. We use commercially available information security technologies to protect such information in digital format. We also use security and business controls to limit access to such information. However, employees or third parties may be able to circumvent these measures and acquire or misuse such information, resulting in breaches of privacy, and errors in the storage, use or transmission of such information may result in breaches of privacy. Privacy breaches may require notification and other remedies, which can be costly, and which may have other serious adverse consequences for our business, including regulatory penalties and fines, claims for breach of contract, claims for damages, adverse publicity, reduced demand for our services by clients and/or flex employment candidates, harm to our reputation, and regulatory oversight by state or federal agencies.

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

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**Kforce may be adversely affected by immigration restrictions.**

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

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

On September 20, 2011, Kforce entered into a Third Amended and Restated Credit Agreement with a syndicate led by Bank of America, N.A. (the Credit Facility ). The maximum borrowings available to Kforce under the Credit Facility are limited to: (a) a revolving credit facility of up to $100 million (the Revolving Loan Amount ) and (b) a $15 million sub-limit included in the Credit Facility for letters of credit.

Kforce s liquidity may be adversely impacted by covenants in our Credit Facility. Borrowing availability under the Credit Facility is limited to the remainder of (a) the lesser of (i) $100.0 million minus the four week average aggregate weekly payroll of employees assigned to work for customers, or (ii) 85% of the net amount of eligible accounts receivable, plus 80% of the net amount of eligible unbilled accounts receivable, plus 80% of the net amount of eligible employee placement accounts, minus certain minimum availability reserves, and in either case, minus (b) the aggregate outstanding amount under the Credit Facility. Under the Credit Facility, Kforce is subject to certain affirmative and negative covenants including (but not limited to) the maintenance of a fixed charge coverage ratio of at least 1.00 to 1.00 if the Firm s availability under the Credit Facility is less than the greater of 10% of the aggregate amount of the commitment of all of the lenders under the Credit Facility and $11.0 million. Kforce had availability under the Credit Facility of $35.9 million as of December 31, 2011; therefore, the minimum fixed charge coverage ratio was not applicable. Kforce believes that it will be able to maintain the minimum availability requirement; however, in the event that Kforce is unable to do so, Kforce may fail the minimum fixed charge coverage ratio, which would constitute an event of default.

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

**The financial markets may experience significant turmoil, which may negatively impact our liquidity and our ability to obtain financing.**

Our liquidity and our ability to obtain financing may be negatively impacted if one of our lenders under our Credit Facility, or another financial institution, suffers liquidity issues. In such an event, we may not be able to draw on any of the amounts available under our Credit Facility, or a substantial portion thereof.

**Kforce s temporary staffing business could be adversely impacted by the health care reform.**

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

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

A significant and sustained decline in our stock price and market capitalization, a significant decline in our (or in one or more of our reporting units) expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in the need to perform an impairment analysis in future periods. If we were to conclude that a future write down of our goodwill or other intangible assets is necessary it could result in material charges that are adverse to our operating results and financial position. See Note 5 Goodwill and Other Intangible Assets to the Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates for further details.

**Significant legal actions could subject Kforce to substantial uninsured liabilities.**

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

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

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

**Kforce depends on the proper functioning of its information systems.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Our offshore outsourcing solutions are limited.**

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

**We do not provide a VMS solution.**

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

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

We face significant competition in the markets we serve, and there are limited barriers to entry for new competitors. The competition among staffing services firms is intense. Kforce competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, temporary personnel agencies, search firms, and other providers of staffing services. A number of our competitors possess substantially greater resources than we do. From time to time, we experience significant pressure from our clients to reduce price levels. During these periods, we may face increased competitive pricing pressures and may not be able to recruit the personnel necessary to fulfill our clients needs. We also face the risk that certain of our current and prospective clients will decide to provide similar services internally.

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

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

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

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

**Kforce may face significant risk arising from acquisitions.**

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

These acquisitions involve numerous risks, including:

- potential loss of key employees or clients of acquired companies;
- difficulties integrating acquired personnel and distinct cultures into a single business;
- diversion of management attention from existing operations; and
- assumption of liabilities and exposure to unforeseen liabilities of acquired companies.

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

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

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

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**Kforce s stock price may be volatile.**

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

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

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

## RISKS RELATED TO OUR GOVERNMENT BUSINESSES

KGS is substantially dedicated to contracting with and serving U.S. Federal Government agencies (the Federal Agency Business ), primarily as a prime contractor. In addition, Kforce supplies services to the Federal Government, primarily as a staffing services provider to federal prime contractors. Federal contractors, including KGS and Kforce face a number of risks, including the following:

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

We must comply with complex laws and regulations relating to the formation, administration, and performance of Federal Government contracts. These laws and regulations create compliance risk, affect how we do business with our federal agency clients, and may impose added costs on our business. If a government review or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to our reputation, suspension of payments, fines, and suspension or debarment from doing business with Federal Government agencies.

KGS is operating under an Administrative Agreement with the United States Department of Interior ( DOI ), which imposes significant training requirements, oversight and controls on KGS throughout the term which is currently scheduled to end on December 29, 2012. The failure of KGS to comply with the Administrative Agreement during this period could have a material adverse impact on KGS and Kforce, including suspension and debarment from doing business with the Federal Government. As a result of a self-reported billing issue with another Federal agency, we are presently in discussions with the DOI to extend the Administrative Agreement up to a year and to add additional components to KGS compliance program.

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

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

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

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

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

On an annual basis, Congress must approve and the President must sign the appropriation bills that govern spending by each of the federal agencies we support. If Congress is unable to agree on budget priorities and is unable to pass the annual budget on a timely basis, there may be delays, reductions or cessations of funding for our services and solutions.

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

Changes in Federal Government fiscal or spending policies could materially adversely affect our government agency business. For example, the U.S. Congress s inability to pass the 2011 U.S. federal budget and its continuing to operate under a series of seven CRAs thereby continuing funding at or less than 75% of 2010 levels have delayed the timing of project awards, increased the uncertainty about the funding levels of various programs and agencies within the Federal Government and a resulted in the continued trend by the Federal Government to in-source certain functions. This trend has adversely affected our business and it could further adversely affect our business if it continues.

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

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

**Competition is intense in the federal agency business.**

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

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

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

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

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

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

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

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

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

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**Item 1B.** ***Unresolved Staff Comments.***
None.

**Item 2.** ***Properties.***
On May 27, 2010, we acquired our corporate headquarters in Tampa, Florida, which we previously had leased and which is approximately 128,000 square feet of space, for a purchase price of $28.5 million. Leases for our field offices, which are located throughout the U.S., range from three to five-year terms although there are a few month-to-month arrangements and one 10-year lease term. We also lease an office in Manila, Philippines, which is approximately 17,000 square feet of space.

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

**Item 3.** ***Legal Proceedings.***
As disclosed in our previous filings with the SEC, Kforce was a defendant in a California class action lawsuit alleging misclassification of California Account Managers and seeking unspecified damages. The tentative settlement referred to in our Annual Report on Form 10-K for the year ended December 31, 2010 was approved by the Court during the three months ended June 30, 2011 in the amount of $2.5 million, which has been recorded within accounts payable and other accrued liabilities in the accompanying Consolidated Balance Sheets.

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 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.

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

**Item 4.** ***Mine Safety Disclosures.***
Not applicable.

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**PART II**

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

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

| | Three Months Ended | | | |
|---|---|---|---|---|
| | **March 31,** | **June 30,** | **September 30,** | **December 31,** |
| 2011 | | | | |
| High | $ 19.23 | $ 18.56 | $ 15.04 | $ 14.11 |
| Low | $ 15.86 | $ 12.14 | $ 8.12 | $ 9.42 |
| **2010** | | | | |
| High | $ 16.04 | $ 16.25 | $ 14.51 | $ 17.10 |
| Low | $ 12.32 | $ 11.92 | $ 9.80 | $ 13.04 |

From January 1, 2012 through March 6, 2012, the high and low intra-day sales price of our common stock was $14.56 and $12.01, respectively. On March 6, 2012, the last reported sale price of our common stock on the NASDAQ Global Select Market was $14.03 per share.

*Holders of Common Stock*

On March 6, 2012, there were approximately 196 holders of record.

*Dividends*

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

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*Securities Authorized for Issuance under Equity Compensation Plans*

The following table provides information about our common stock that may be issued under all of our existing equity compensation plans as of December 31, 2011:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (1) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (2) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) (3) (4) |
|---|---|---|---|
| Equity compensation plans approved by shareholders | | | |
| Kforce Inc. 2006 Stock Incentive Plan | 97,768 | $ 12.05 | 404,010 |
| Kforce Inc. 2009 Employee Stock Purchase Plan | N/A | N/A | 2,944,122 |
| Total | 97,768 | $ 12.05 | 3,348,132 |

(1) In addition to the number of securities listed in this column, 3,333,647 shares of performance-accelerated restricted stock and restricted stock granted under the Kforce Inc. 2006 Stock Incentive Plan have been issued and are unvested as of December 31, 2011.

(2) The weighted-average exercise price excludes unvested performance accelerated restricted stock and restricted stock because there is no exercise price associated with these equity awards.

(3) All of the shares of common stock that remain available for future issuance under the Kforce Inc. 2006 Stock Incentive Plan may be issued in connection with options, warrants, rights and restricted stock awards. Each future grant of options or stock appreciation rights shall reduce the available shares under the Kforce Inc. 2006 Stock Incentive Plan by an equal amount while each future grant of restricted stock shall reduce the available shares by 1.58 shares for each share awarded. In order to maximize our share reserves, the prevailing practice over the last few years has been for Kforce to issue full value awards as opposed to options and stock appreciation rights. In February 2012, Kforce employees forfeited 392,740 full value awards upon the certification of the 2011 performance measures by the Compensation Committee. The forfeitures increased the number of securities available for future issuance to 620,529.

(4) As of December 31, 2011, there were options outstanding under the Kforce Inc. 2009 Employee Stock Purchase Plan ( 2009 ESPP ) to purchase 14,135 shares of common stock at a discounted purchase price of $11.71.

*Purchases of Equity Securities by the Issuer*

The following table presents information with respect to our repurchases of Kforce common stock during the three months ended December 31, 2011:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|
| October 1, 2011 to October 31, 2011 | 172,126 | $ 9.84 | 172,126 | $ 84,237,130 |
| November 1, 2011 to November 30, 2011 | | $ | | $ 84,237,130 |
| December 1, 2011 to December 31, 2011 | | $ | | $ 84,237,130 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | 172,126 | $ | 9.84 | 172,126 | $ | 84,237,130 |

(1) All of the shares reported above as purchased are attributable to shares repurchased in the open market.

(2) During October 2011, our Board of Directors approved an increase to the existing authorization for repurchases of common stock by $75.0 million (exclusive of any previously unused authorizations).

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**Item 6.** ***Selected Financial Data.***

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

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 (1) | 2007 |
| | *(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)* | | | | |
| Net service revenues | $ 1,110,919 | $ 990,807 | $ 910,136 | $ 997,017 | $ 972,781 |
| Gross profit | 346,303 | 312,414 | 285,979 | 344,651 | 352,023 |
| Selling, general and administrative expenses | 288,981 | 265,183 | 251,268 | 415,884 | 272,335 |
| Depreciation and amortization | 12,694 | 12,611 | 11,673 | 13,824 | 14,487 |
| Other expense, net | 1,317 | 1,296 | 1,145 | 2,136 | 4,422 |
| Income (loss) from continuing operations, before income taxes | 43,311 | 33,324 | 21,893 | (87,193) | 60,779 |
| Provision for income taxes | 16,155 | 12,690 | 9,020 | 1,928 | 23,856 |
| Income (loss) from continuing operations | 27,156 | 20,634 | 12,873 | (89,121) | 36,923 |
| Income from discontinued operations, net of income taxes | | | | 5,013 | 3,444 |
| Net income (loss) | $ 27,156 | $ 20,634 | $ 12,873 | $ (84,108) | $ 40,367 |
| Earnings (loss) per share basic, continuing operations | $ 0.72 | $ 0.52 | $ 0.33 | $ (2.26) | $ 0.90 |
| Earnings (loss) per share diluted, continuing operations | $ 0.70 | $ 0.51 | $ 0.33 | $ (2.26) | $ 0.87 |
| Earnings (loss) per share basic | $ 0.72 | $ 0.52 | $ 0.33 | $ (2.13) | $ 0.98 |
| Earnings (loss) per share diluted | $ 0.70 | $ 0.51 | $ 0.33 | $ (2.13) | $ 0.95 |
| Weighted average shares outstanding basic | 37,835 | 39,480 | 38,485 | 39,471 | 41,308 |
| Weighted average shares outstanding diluted | 38,831 | 40,503 | 39,330 | 39,471 | 42,294 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 (1) | 2007 |
| | *(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)* | | | | |
| Working capital | $ 103,075 | $ 64,878 | $ 57,924 | $ 60,302 | $ 95,348 |
| Total assets | $ 409,672 | $ 391,044 | $ 339,825 | $ 350,815 | $ 476,136 |
| Total outstanding borrowings Credit Facility | $ 49,526 | $ 10,825 | $ 3,000 | $ 38,022 | $ 50,330 |
| Total long-term liabilities | $ 93,393 | $ 36,904 | $ 33,887 | $ 59,528 | $ 78,102 |
| Stockholders equity | $ 233,115 | $ 253,817 | $ 226,725 | $ 205,843 | $ 312,468 |

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

The acquisition of dNovus was made during the three months ended December 31, 2008. The results of operations for this acquisition have been included in our Consolidated Financial Statements since the acquisition date. During the three months ended June 30, 2008, Kforce sold its Scientific and per-diem Nursing business and completed efforts to wind down the remaining operations of its non per-diem Nursing business. As a result, the results of operations of Scientific and Nursing have been presented as discontinued operations for the years ended December 31, 2008 and 2007.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help the reader understand Kforce, our operations, and our present business environment. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8. Financial Statements and Supplementary Data of this report as well as Item 1. Business of this report for an overview of our operations and business environment.

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

*Executive Summary* an executive summary of our results of operations for 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 consolidated results of operations for the three years presented in its 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 contractual obligations and commitments 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 2011 highlights, which should be considered in the context of the additional discussions herein and in conjunction with the Consolidated Financial Statements and notes thereto. We believe such highlights are as follows:

Net service revenues increased 12.1% to $1,111.0 million in 2011 from $990.8 million in 2010. Net service revenues increased 15.9% for Tech, 17.3% for FA, 1.9% for KCR and 19.0% for HIM and decreased 10.4% for GS.

Flex revenues increased 12.1% to $1,066.4 million in 2011 from $951.4 million in 2010.

Search revenues increased 13.1% to $44.5 million in 2011 from $39.4 million in 2010.

Flex gross profit margin decreased 40 basis points to 28.3% in 2011 from 28.7% in 2010 primarily as a result of the increase in statutory payroll costs, particularly relating to unemployment taxes, which was partially offset by an increase in the spread between our bill and pay rates. Flex gross profit margin increased 170 basis points for HIM and decreased 30 basis points for Tech, 60 basis points for FA, 60 basis points for KCR and 150 basis points for GS.

SG&A as a percentage of revenues for the year ended December 31, 2011 was 26.0% compared to 26.8% in 2010.

Net income increased 31.6% to $27.2 million in 2011 from $20.6 million in 2010.

The total amount outstanding under the Credit Facility, which was amended and restated in September 2011, increased $38.7 million to $49.5 million as of December 31, 2011 from $10.8 million as of December 31, 2010, which was primarily related to the repurchase of common stock in the open market.

During 2011, Kforce repurchased 5.7 million shares of common stock in the open market at a total cost of approximately $58.1 million.

Diluted earnings per share increased 37.3% to $0.70 per share in 2011 from $0.51 per share in 2010.

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**CRITICAL ACCOUNTING ESTIMATES**

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

Our significant accounting policies are discussed in Note 1 - Summary of Significant Accounting Policies to the Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K. Management believes that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management s most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Allowance for Doubtful Accounts, Fallouts and Other Accounts Receivable Reserves** | | |
| See Note 1 - Summary of Significant Accounting Policies to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K, for a complete discussion of our policies related to determining our allowance for doubtful accounts, fallouts and other accounts receivable reserves. | Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, changes in economic conditions, a specific analysis of material accounts receivable balances that are past due, and concentration of accounts receivable among clients, in establishing its allowance for doubtful accounts. | We have not made any material changes in the accounting methodology used to establish our allowance for doubtful accounts, fallouts and other accounts receivable reserves. As of December 31, 2011 and 2010, the allowance was 1.4% and 2.6% as a percentage of gross accounts receivable, respectively. |
| | Kforce estimates its allowance for Search fallouts based on our extensive historical experience with the actual occurrence of fallouts. | We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our allowance for doubtful accounts. However, if our estimates regarding estimated accounts receivable losses are inaccurate, we may be exposed to losses or gains that could be material. A 10% difference in actual accounts receivable losses reserved at December 31, 2011, would have impacted our net income for 2011 by less than $0.1 million. |
| | Kforce estimates its reserve for future revenue adjustments (e.g. bill rate adjustments, time card adjustments, early pay discounts) based on our historical experience. | |
| | | Although we do not believe that there is a reasonable likelihood that there will be a material change in the actual occurrence of fallouts, a 10% difference in our actual |

fallout experience reserved at December 31, 2011, would have impacted our net income for 2011 by less than $0.1 million.

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| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Goodwill Impairment** | | |
| We evaluate goodwill for impairment annually or more frequently whenever events and circumstances indicate that the carrying value of the goodwill may not be recoverable. See Note 5 - Goodwill and Other Intangible Assets to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of the valuation methodology employed. | We determine the fair value of our reporting units using widely accepted valuation techniques, including discounted cash flow, market multiple analyses and market transactions analyses. These types of analyses contain uncertainties because they require management to make significant assumptions and judgments including: (i) an appropriate rate to discount the expected future cash flows, (ii) the inherent risk in achieving forecasted operating results, (iii) long-term growth rates, (iv) expectations for future economic cycles, (v) market comparable companies and appropriate adjustments thereto and (vi) market multiples. | Impairment was not indicated for any of our reporting units based on the results of the first step of the goodwill impairment assessment as of December 31, 2011. The fair value for Tech, FA, KCR, HIM and GS reporting units exceeded their carrying values by 52%, 81%, 68%, 60% and 9%, respectively. |
| We completed our annual assessment of goodwill impairment as of December 31, 2011 using the methodology described therein and determined there was no impairment. | It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations. | As a result of the 9% gap between the fair value and carrying value of our GS reporting unit, we performed a sensitivity analysis by independently modifying the discount rate, weighting of the income and market approaches, long-term growth rate and forecasted operating results. A deterioration in the assumptions noted above could indicate impairment. However, we do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill and other intangible assets. |
| The carrying value of goodwill as of December 31, 2011 by reporting unit was $17.0 million, $8.0 million, $5.5 million, $4.9 million and $102.6 million for the Tech, FA, KCR, HIM and GS, respectively. | | |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Self-Insured Liabilities** | | |
| We are self-insured for certain losses related to health insurance and workers compensation claims. However, we obtain third-party insurance coverage to limit our exposure to these claims. | Our self-insured liabilities contain uncertainties because management is required to make assumptions and to apply judgment to estimate the ultimate total cost to settle reported claims and claims incurred but not reported as of the balance sheet date. | We have not made any material changes in the accounting methodology used to establish our self-insured liabilities during the past three fiscal years. |
| When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, plan structure, internal claims management activities, demographic factors and severity factors. Periodically, management reviews its assumptions to determine the adequacy of our self-insured liabilities. | | We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. |
| Our liabilities for health insurance and workers compensation claims as of December 31, 2011 | | |

| | |
|---|---|
| were \$3.5 million and \$1.5 million, respectively. | A 10% change in our self-insured liabilities related to health insurance and workers compensation as of December 31, 2011 would have impacted our net income for 2011 by approximately \$0.5 million. |

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| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Stock-Based Compensation** | | |
| We have stock-based compensation plans, which includes options, stock appreciation rights and unvested share awards and an employee stock purchase plan. See Note 1 - Summary of Significant Accounting Policies, Note 10 - Employee Benefit Plans, and Note 12 - Stock Incentive Plans to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of our stock-based compensation programs. | Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, risk-free rates, future employee turnover rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the estimate of fair value. | We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material or the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based compensation. |
| We determine the fair value of our stock option awards and stock appreciation rights ( SARs ) at the date of grant using widely accepted option-pricing models such as Black-Scholes. We determine the fair market value of our restricted stock ( RS ) and performance accelerated restricted stock ( PARS ) based on the closing stock price of Kforce s common stock at the date of grant. We also utilize a lattice model to determine the derived service period for our SARs and PARS, which contain a market condition. | RS and PARS require management to make assumptions regarding the likelihood of achieving any performance conditions as well as employee turnover rates.<br><br>SARs and PARS also have certain market conditions, which are inherently difficult to estimate but are modeled using a Monte Carlo simulation model. | A 10% change in our stock-based compensation expense would have impacted our net income for 2011 by approximately $1.1 million. |

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| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Defined Benefit Pension Plan U.S.** | | |
| We have a defined benefit pension plan that benefits certain named executive officers, the Supplemental Executive Retirement Plan ( SERP ) and a defined benefit postretirement health plan, the Supplemental Executive Retirement Health Plan ( SERHP ). See Note 10 - Employee Benefit Plans to the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of the terms of these plans. | When estimating the obligation for our pension and postretirement benefit plans, management is required to make certain assumptions and to apply judgment with respect to determining an appropriate discount rate, bonus percentage assumptions, expected healthcare cost trends, applicability of healthcare regulations and expected future compensation increases for the participants in the plans, as they apply to our plans. | We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our obligation. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. |
| | | A 10% change in the discount rate used to measure the net periodic pension cost for the SERP and SERHP during 2011 would have had an insignificant impact on our net income for 2011. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| **Accounting for Income Taxes** | | |
| See Note 3 - Income Taxes to the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a complete discussion of the components of Kforce s income tax expense as well as the temporary differences that exist as of December 31, 2011. | Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we conduct business. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions, including those that may be uncertain. | We do not believe that there is a reasonable likelihood that there will be a material change in our liability for uncertain income tax positions or our effective income tax rate. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses that could be material. Kforce recorded a valuation allowance of \$0.1 million as of December 31, 2011 related primarily to state net operating losses. |
| | Kforce is also required to exercise judgment with respect to the realization of our net deferred tax assets. Management evaluates all positive and negative evidence and exercises judgment regarding past and future events to determine if it is more likely than not that all of some portion of the deferred tax assets may not be realized. If appropriate, a valuation allowance is recorded against deferred tax assets to offset future tax benefits that may not be realized. | A 0.50% change in our effective income tax rate from continuing operations would have impacted our net income for 2011 by approximately \$0.2 million. |

**NEW ACCOUNTING STANDARDS**

In September 2011, the FASB issued guidance which provides entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be required. This guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. Kforce does not expect the adoption of this guidance to have a material impact on its future consolidated financial statements.

In December 2011, the FASB issued authoritative guidance regarding the presentation of netting assets and liabilities as a single amount in the statement of financial position to address the difference between GAAP and international financial reporting standards ( IFRS ). This guidance is to be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Kforce does not expect the adoption of this guidance to have a material impact on its future consolidated financial statements.

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**RESULTS OF OPERATIONS**

Net service revenues for the years ended December 31, 2011 and 2010 were $1,111.0 million and $990.8 million, respectively, which represents an increase of 12.1%. The increase was primarily due to our Tech (which represents 56.2% of our total net service revenues) and FA segments (which represents 19.8% of our net service revenues), which had year-over-year increases in net service revenues of 15.9% and 17.3%, respectively. In addition, net service revenues for HIM and KCR increased 19.0% and 1.9%, respectively. Our GS segment experienced a 10.4% decline in net service revenues over the comparable period in 2010. The results of operations for our GS segment for 2011 were adversely impacted by the U.S. Congress s inability to pass the 2011 U.S. federal budget and continues to be adversely impacted by the U.S. Congress s continuing to operate under a series of seven CRAs, which thereby continue funding at or less than 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 over the last few years by Federal Government mandates to in-source certain positions that were previously occupied by contractors. Search revenues increased 13.1% for 2011 compared to 2010.

Flex gross profit margins decreased 40 basis points to 28.3% compared to 28.7% for the years ended December 31, 2011 and 2010, respectively. Kforce experienced declines in Flex gross profit margins across all segments with the exception of HIM, which increased 170 basis points on a year-over-year basis. The decreases in Flex gross profit margins were primarily attributable to the increase in payroll taxes, particularly unemployment taxes, and were partially offset by the increase in the spread between our bill and pay rates. SG&A expenses as a percentage of net service revenues were 26.0% and 26.8% for the years ended December 31, 2011 and 2010, respectively.

From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which improved during 2011 as compared to 2010 based on data published by the Bureau of Labor Statistics ( BLS ). The penetration rate (the percentage of temporary staffing to total employment) increased slightly in 2011 after growing significantly in 2010. Economic forecasters estimate that the penetration rate could surpass the prior peak of 2.03% reached in April 2000 by 2016. While we believe the macro-employment picture continues to be relatively weak with the unemployment rate at 8.5% as of December 2011, non-farm payroll expanded by 200,000 jobs in December 2011. Additionally, non-farm payroll growth has remained positive for 15 consecutive months through December 2011. If the penetration rate of temporary staffing experiences growth in the coming years, 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.

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 systems) with a focus in 2011 on job order prioritization and (iv) making other technology investments designed to increase the performance of our corporate and 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 consolidated statements of operations for the years ended:

| | December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues by Segment: | | | |
| Tech | 56.2% | 54.4% | 51.4% |
| FA | 19.8 | 18.9 | 17.9 |
| KCR | 9.5 | 10.5 | 11.9 |
| HIM | 6.2 | 5.8 | 6.2 |
| GS | 8.3 | 10.4 | 12.6 |
| Net service revenues | 100.0% | 100.0% | 100.0% |
| Revenues by Time: | | | |
| Flex | 96.0% | 96.0% | 96.9% |
| Search | 4.0 | 4.0 | 3.1 |
| Net service revenues | 100.0% | 100.0% | 100.0% |
| Gross profit | 31.2% | 31.5% | 31.4% |
| Selling, general and administrative expenses | 26.0% | 26.8% | 27.6% |
| Income before income taxes | 3.9% | 3.5% | 2.4% |
| Net income | 2.4% | 2.1% | 1.4% |

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

| (in $000 s) | 2011 | Increase (Decrease) | 2010 | Increase (Decrease) | 2009 |
|---|---|---|---|---|---|
| Tech | | | | | |
| Flex | $ 606,238 | 16.1% | $ 522,220 | 14.1% | $ 457,544 |
| Search | 17,774 | 8.7% | 16,346 | 59.0% | 10,280 |
| Total Tech | $ 624,012 | 15.9% | $ 538,566 | 15.1% | $ 467,824 |
| FA | | | | | |
| Flex | $ 194,359 | 17.2% | $ 165,831 | 13.4% | $ 146,186 |
| Search | 25,216 | 18.0% | 21,365 | 28.2% | 16,670 |
| Total FA | $ 219,575 | 17.3% | $ 187,196 | 14.9% | $ 162,856 |
| KCR | | | | | |
| Flex | $ 105,147 | 1.8% | $ 103,282 | (4.0)% | $ 107,535 |
| Search | 1,025 | 18.1% | 868 | 76.1% | 493 |
| Total KCR | $ 106,172 | 1.9% | $ 104,150 | (3.6)% | $ 108,028 |
| HIM | | | | | |
| Flex | $ 68,181 | 19.7% | $ 56,965 | 1.8% | $ 55,946 |
| Search | 530 | (33.6)% | 798 | (16.8)% | 959 |
| Total HIM | $ 68,711 | 19.0% | $ 57,763 | 1.5% | $ 56,905 |

| | | | | | |
|---|---|---|---|---|---|
| GS | | | | | |
| Flex | $ 92,449 | (10.4)% | $ 103,132 | (9.9)% | $ 114,523 |
| Search | | | | | |
| Total GS | $ 92,449 | (10.4)% | $ 103,132 | (9.9)% | $ 114,523 |
| Total Flex | $ 1,066,374 | 12.1% | $ 951,430 | 7.9% | $ 881,734 |
| Total Search | 44,545 | 13.1% | 39,377 | 38.6% | 28,402 |
| Total Revenues | $ 1,110,919 | 12.1% | $ 990,807 | 8.9% | $ 910,136 |

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While quarterly comparisons are not fully discussed herein, certain quarterly revenue trends are referred to in discussing annual comparisons. Our quarterly operating results are affected by the number of billing days in a quarter, which is provided in the table below. This 2011 quarterly information is presented for this purpose only.

| | Three Months Ended | | | |
|---|---|---|---|---|
| **(in $000 s, except Billing Days)** | **December 31** | **September 30** | **June 30** | **March 31** |
| Billing Days | 61 | 64 | 64 | 63 |
| Flex Revenues | | | | |
| Tech | $ 156,543 | $ 160,285 | $ 149,997 | $ 139,413 |
| FA | 50,926 | 48,046 | 47,522 | 47,865 |
| KCR | 25,971 | 27,703 | 25,742 | 25,731 |
| HIM | 18,445 | 17,208 | 16,601 | 15,927 |
| GS | 23,269 | 23,881 | 21,946 | 23,353 |
| Total Flex | $ 275,154 | $ 277,123 | $ 261,808 | $ 252,289 |
| Search Revenues | | | | |
| Tech | $ 4,279 | $ 5,191 | $ 4,537 | $ 3,767 |
| FA | 5,746 | 6,251 | 7,252 | 5,967 |
| KCR | 239 | 264 | 224 | 298 |
| HIM | 133 | 162 | 168 | 67 |
| Total Search | $ 10,397 | $ 11,868 | $ 12,181 | $ 10,099 |
| Total Revenues | | | | |
| Tech | $ 160,822 | $ 165,476 | $ 154,534 | $ 143,180 |
| FA | 56,672 | 54,297 | 54,774 | 53,832 |
| KCR | 26,210 | 27,967 | 25,966 | 26,029 |
| HIM | 18,578 | 17,370 | 16,769 | 15,994 |
| GS | 23,269 | 23,881 | 21,946 | 23,353 |
| Total Revenues | $ 285,551 | $ 288,991 | $ 273,989 | |