

KFORCE INC
Form 11-K
June 28, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number 0-26058

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

KFORCE 401(k) RETIREMENT

SAVINGS PLAN

1001 EAST PALM AVENUE

TAMPA, FL 33605

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

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KFORCE INC.

1001 EAST PALM AVENUE

TAMPA, FL 33605

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Kforce 401(k) Retirement Savings Plan

Financial Statements as of December 31, 2005 and 2004 and for the Year Ended December 31, 2005, Supplemental Schedule as of December 31, 2005, and Report of Independent Registered Public Accounting Firm

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NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors, Participants, and Administrator of

Kforce 401(k) Retirement Savings Plan

Tampa, Florida

We have audited the accompanying statements of net assets available for benefits of the Kforce 401(k) Retirement Savings Plan (the Plan) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in net assets available for benefits for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2005 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

Certified Public Accountants

Tampa, Florida

June 23, 2006

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KFORCE 401(k) RETIREMENT SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|---------------|---------------|
| PARTICIPANT-DIRECTED INVESTMENTS At fair value (including \$732,608 and \$566,905 of participant loans at December 31, 2005 and 2004, respectively) | \$ 72,845,845 | \$ 76,061,853 |
| RECEIVABLES: | | |
| Employer contributions | 553,235 | 643,405 |
| Employee contributions | 180,353 | 222,971 |
| Accrued interest and dividends | | 20,412 |
| Total receivables | 733,588 | 886,788 |
| CASH AND CASH EQUIVALENTS | 243 | 159,049 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 73,579,676 | \$ 77,107,690 |

See notes to financial statements.

Table of Contents**KFORCE 401(k) RETIREMENT SAVINGS PLAN****STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS****YEAR ENDED DECEMBER 31, 2005****ADDITIONS:**

Investment income:

Interest and dividends \$ 2,027,713

Loan interest 34,152

2,061,865

Contributions:

Participant 10,753,333

Employer 564,172

Rollovers from other qualified plans 2,041,341

Total contributions 13,358,846

Net appreciation in fair value of investments 1,235,968

Other 10,517

Total additions 16,667,196

DEDUCTIONS:

Benefits paid to participants 20,179,995

Administrative expenses 15,215

Total deductions 20,195,210

NET DECREASE IN NET ASSETS AVAILABLE FOR BENEFITS (3,528,014)

NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year 77,107,690

End of year \$ 73,579,676

See notes to financial statements.

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KFORCE 401(k) RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLAN

The Kforce 401(k) Retirement Savings Plan (the Plan) is sponsored by Kforce Inc. (Kforce).

Effective January 1, 2001, the Plan was amended and restated to incorporate changes made by the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and the Community Renewal Tax Relief Act of 2000 (collectively referred to as GUST Amendments). The Plan has received a favorable determination letter that considered the changes in the qualification requirements made by the GUST Amendments.

Effective December 1, 2005, the Plan changed its trustee and record keeper from Merrill Lynch Trust Firm to Prudential Bank & Trust FSB (the Trustee).

The following description of the Plan is provided for general information purposes. Participants should refer to the Plan agreement for a more complete description of the Plan provisions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

General The Plan is a defined contribution plan covering substantially all employees, except those that meet certain exceptions.

Eligibility All employees are eligible to participate in the Plan with the exception of the following:

Employees who are leased employees under Internal Revenue Code (the Code) Section 414(n)

Employees who are covered by a collective bargaining agreement that does not provide for participation in the Plan

Employees who are nonresident aliens with no U.S. source earned income

Individuals who are performing service as independent contractors or consultants regardless of whether they are subsequently determined to be common law employees

Employees who are not on the U.S. payroll of Kforce.

Contributions Participants may contribute up to 75% of their compensation for the year subject to the limitations provided in the Code, which was \$14,000 for those under age 50 and \$18,000 for those over age 50 for 2005. Kforce matching and other contributions are made at the discretion of the Board of Directors in amounts not to exceed the maximum permitted as a deductible expense by the Code. Kforce contributions, if any, are funded annually to eligible participants remaining in the Plan at each year-end. Eligible participants are employees who have completed at least 1,000 hours as of the last day of the Plan year, or who have terminated employment because of death, or total disability or after reaching age 55. For the year ended December 31, 2005, Kforce made matching contributions equal to 10% of participant contributions for the period to all eligible participants still employed at December 31, 2005.

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All contributions to the Plan are deposited with the Trustee. Contributions are then directed at the employee's discretion into various investment options. Investment elections may be changed by the employee at any time.

Participant Accounts Each participant's account is self-directed and is credited with the participant's contributions, Kforce's matching and other contributions, and Plan earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. The participant's account balance is reduced for any participant withdrawals, participant loans, and applicable expenses. For those participants that were enrolled in the Plan prior to 2001, a profit-sharing account may be maintained by the Trustee to account for previous years profit-sharing contributions. The Plan document has been amended, and as such, profit-sharing contributions are no longer made.

Rollovers All employees who meet the Plan eligibility requirements are eligible to make cash rollover contributions to the Plan from a previous employer's qualified retirement plan or a conduit IRA.

Vesting Participants are immediately vested in their contributions plus actual earnings thereon. Kforce contributions and earnings vest at 20%, 40%, and 60% after two, three, and four years of vesting service, respectively. Kforce contributions become 100% vested upon:

Normal retirement

Total disability

Death

Completion of five years of vesting service

Plan termination.

In-Service Withdrawals Participants may request the following types of in-service withdrawals from the Plan during any given calendar month:

Age 59 1/2

Financial hardship

Withdrawals from profit-sharing account.

Plan Termination Although it has not expressed any intent to do so, Kforce has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts and the trust shall continue until all participants' accounts have been completely distributed to each participant (or their designated beneficiary) in accordance with the Plan.

Loans Participants may borrow money from their vested account balance for any reason. The maximum amount available for loans is the lesser of \$50,000 reduced by the participant's highest loan balance outstanding in the 12 months prior to the date of the loan or 50% of the participant's vested account balance. The minimum amount for a loan is \$500.

Loan repayments must have a definite repayment period not to exceed five years unless the loan is for the purchase of a principal residence, in which case the repayment period must not exceed 15 years. Participant loans, including interest thereon, are taxable to the participant upon default, as well as subject to applicable excise penalties.

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The loans are collateralized by the balance in the participant's account and bear interest at a reasonable rate.

Payment of Benefits Upon termination of service, a participant may elect an immediate single-sum payment. Other forms of payments are available as per the terms of the Plan.

At December 31, 2005 and 2004, there were approximately \$35,000 and \$154,000, respectively, in distribution payments that were processed and approved for payment by the Plan, but not yet paid to participants.

Forfeited Accounts Non-vested balances resulting from Kforce contributions will be forfeited upon the date the participant incurs five consecutive one-year breaks in service or receives a distribution. A one-year break in service is any year a participant works less than 500 hours. For terminated employees who receive a distribution but who are re-employed during the five consecutive years following termination, the forfeiture amount shall be restored to the participant's account if the participant pays back the full amount of the distribution within five years of the re-employment date.

Forfeited balances will be used first to fund any restorations and then to reduce administrative expenses properly payable by the Plan. If any forfeitures remain unallocated, they shall be used to reduce employer matching contributions, if any, then to reduce employer qualified nonelective contributions, and finally to increase the employer matching contributions. Any remaining forfeitures shall be credited to a suspense account to be used for future restorations. For the years ended December 31, 2005 and 2004, there were \$260,000 and \$185,000, respectively, in matching contributions which were made out of forfeited funds for the years ended December 31, 2005 and 2004. Qualified non-elective contributions of approximately \$11,000 were made out of the forfeitures account during each of the years ended December 31, 2005 and 2004. The suspense account was maintained in the Guaranteed Income Fund at December 31, 2005 and the Merrill Lynch Retirement Preservation Trust at December 31, 2004. Forfeited funds in the suspense account at December 31, 2005 and 2004 were approximately \$234,000 and \$188,000, respectively.

2. SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Risks and Uncertainties The Plan utilizes various investment instruments, including mutual funds and investment contracts. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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Valuation of Investments and Income Recognition The Plan's investments are stated at fair value, based on quoted market prices. Shares of mutual funds and collective trusts are valued at the net asset value of shares held by the Plan at year-end. Loans are carried at cost which approximates market value.

Purchases and sales of securities are recorded on a trade-date basis.

Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Contributions Employee contributions are recorded when salary or bonus is paid. Kforce contributions are recorded when authorized.

Payment of Benefits Benefits are recorded when paid.

Expenses of Plan Certain expenses incurred in the administration of the Plan are paid by the Plan participants. Kforce pays a portion of the expenses for services necessary for the administration of the Plan.

3. FEDERAL INCOME TAX STATUS

The Internal Revenue Service has determined and informed Kforce by a letter dated October 7, 2002, that the Plan and related trust were designed in accordance with the applicable regulations of the Internal Revenue Code. The Plan has been amended since receiving the determination letter; however, Kforce and the plan administrator believe that the Plan is currently designed and operated in compliance with the applicable requirements of the Internal Revenue Code and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

4. EXEMPT PARTY-IN-INTEREST TRANSACTIONS

Plan investments include shares of a collective trust, pooled separate accounts, an unallocated insurance contract and mutual funds managed by the Trustees and, therefore, these transactions qualify as exempt party-in-interest. Fees paid by the Plan participants for the investment management services amounted to approximately \$15,000 for the year ended December 31, 2005.

At December 31, 2005 and 2004, the Plan held 660,197 and 861,866 shares, respectively of common stock of Kforce Inc. the sponsoring employer.

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5. INVESTMENTS

The following presents investments, at fair value, that represent 5% or more of the Plan's net assets as of December 31, 2005 and 2004:

| Description of Investment | December 31 | |
|---|---------------|------------|
| | 2005 | 2004 |
| Large Cap Value/LSV Asset Management Fund | \$ 14,055,898 | \$ |
| Jennison Small Company Fund | 10,235,703 | |
| Guaranteed Income Fund | 8,564,945 | |
| International Value/LSV Asset Management Fund | 7,886,613 | |
| Kforce Inc. Common Stock | 7,367,804 | 9,566,709 |
| PIMCO Total Return Fund | 4,941,497 | 4,448,351 |
| Alliance Growth and Income Fund | | 17,953,394 |
| Merrill Lynch Value Opportunities Fund | | 9,999,767 |
| Templeton Foreign Fund | | 8,664,178 |
| Merrill Lynch Retirement Preservation Trust | | 7,734,051 |
| MFS Total Return Fund | | 4,018,021 |

The Plan's investments, including gains and losses on investments purchased, sold, and held during the year, appreciated in value as follows:

| | Year Ended December 31, 2005 |
|--------------------------------|------------------------------------|
| Mutual funds | \$ 1,250,829 |
| Pooled separate accounts | 162,147 |
| Unallocated insurance contract | |
| Kforce Inc. common stock | (122,778) |
| Self-direct account | (54,230) |
| | \$ 1,235,968 |

* * * * *

Table of Contents**KFORCE 401(k) RETIREMENT SAVINGS PLAN****FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)****AS OF DECEMBER 31, 2005**

| Identity of Party Involved | Description of Asset | Current Value |
|--|--------------------------------|----------------------|
| Kforce Inc.* | Common Stock | \$ 7,367,804 |
| Jennison Small Company Fund | Mutual Fund | 10,235,703 |
| Pimco Total Return Fund | Mutual Fund | 4,941,497 |
| Dryden Stock Index Fund | Mutual Fund | 3,322,443 |
| Van Kampen Equity and Income Fund | Mutual Fund | 3,244,975 |
| American Funds Growth Fund of America | Mutual Fund | 2,549,665 |
| Goldman Sachs Mid-Cap Value Fund | Mutual Fund | 2,137,960 |
| Thornburgh International Value Fund | Mutual Fund | 1,567,865 |
| Large Cap Value/LSV Asset Management Fund* | Pooled Separate Account | 14,055,898 |
| International Value/LSV Management Fund* | Pooled Separate Account | 7,886,613 |
| Small Cap Value/Munder Capital Fund | Pooled Separate Account | 2,421,377 |
| Small Cap Growth/Granahan Fund* | Pooled Separate Account | 1,365,122 |
| Mid Cap Growth/TimesSquare Fund* | Pooled Separate Account | 290,333 |
| Guaranteed Income Fund | Unallocated insurance contract | 8,564,945 |
| Participant Loans* | | 732,608 |
| Self-Direct Account | Self-Directed Option | 2,161,037 |
| | | \$ 72,845,845 |

* Party-in-interest

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Kforce Inc. 401(k) Retirement Savings Plan

(Registrant)

June 27, 2006

(Date)

/s/ Joseph J. Liberatore

Joseph J. Liberatore

Plan Administrator and Chief Financial Officer

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EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 23 | Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm |