KFORCE INC
Form S-4/A
April 13, 2004

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As filed with the Securities and Exchange Commission on April 12, 2004

Registration No. 333-111566

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

FORM S-4

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

KFORCE INC.

(Exact name of registrant as specified in its charter)

Florida	7363	59-3264661
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1001 East Palm Avenue

Tampa, Florida 33605

(813) 552-5000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

David L. Dunkel

Chairman and Chief Executive Officer

Kforce Inc.

1001 East Palm Avenue

Tampa, Florida 33605

(813) 552-5000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copy to:

Robert J. Grammig, Esq.
Marni Morgan Poe, Esq.
Holland & Knight LLP
100 North Tampa Street, Suite 4100
Tampa, Florida 33602
Phone: (813) 227-6502
Fax: (813) 229-0134

Lawrence Calof, Esq.
Gibson, Dunn & Crutcher LLP
1881 Page Mill Road
Palo Alto, California 94304
Phone: (650) 849-5331
Fax: (650) 849-5333

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective time of the proposed merger described in the proxy statement/prospectus, which shall occur as soon as practicable after the effective date of this registration statement and the satisfaction or waiver of all conditions to the closing of such merger.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in

accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary proxy statement/prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary proxy statement/prospectus is not an offer to sell and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROXY STATEMENT/PROSPECTUS

Subject to Completion, dated April 12, 2004

PROXY STATEMENT/PROSPECTUS

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Dear Stockholders:

The boards of directors of Kforce Inc. and Hall, Kinion & Associates, Inc. have approved the acquisition of Hall Kinion by Kforce in a merger. In order to complete the merger, we must obtain the approval of Hall Kinion stockholders. The approval of Kforce shareholders is not required. If the merger is completed, a wholly-owned subsidiary of Kforce will merge with and into Hall Kinion and Hall Kinion will become a wholly-owned subsidiary of Kforce. In the merger, Hall Kinion stockholders will receive, in exchange for shares of Hall Kinion common stock, an aggregate amount of fully paid and nonassessable shares of Kforce common stock based upon the exchange ratio. The exchange ratio is dependent on the Kforce stock market value. The Kforce stock market value is the average of the per share closing prices of Kforce common stock on the Nasdaq National Market over the 15 consecutive trading days ending on and including the third trading day prior to the date of the merger. If the Kforce stock market value is equal to or greater than $7.09, but less than $9.60, then the exchange ratio will equal .45, which will result in Hall Kinion stockholders receiving between $40.4 million and $55.1 million in Kforce common stock. If the Kforce stock market value is less than $7.09, then the exchange ratio will be $3.19 *divided by* the Kforce stock market value, which will result in Hall Kinion stockholders receiving approximately $40.4 million in Kforce common stock. If the Kforce stock market value is equal to or greater than $9.60, but less than or equal to $10.60, then the exchange ratio will be $4.32 *divided by* the Kforce stock market value, which will result in Hall Kinion stockholders receiving approximately $55.2 million in Kforce common stock. If the Kforce stock market value exceeds $10.60, the exchange ratio will be calculated by dividing $4.32 by $10.60, resulting in a fixed exchange ratio of .4075 for all Kforce stock market values greater than $10.60. Assuming the Kforce stock market value were equal to $9.17, which was the average of the per share closing prices of Kforce common stock on the Nasdaq National Market over the 15 consecutive trading days ending on and including the third trading day prior to April 5, 2004, the exchange ratio would equal .45, which would result in Hall Kinion stockholders receiving approximately $52.6 million in Kforce common stock. We hope to complete the merger within one business day following the Hall Kinion stockholder meeting, or as soon as reasonably possible thereafter. However, there may be some delay between the vote to approve the merger and when the merger is actually completed, during which time the price of Kforce common stock could decline. As a result, Hall Kinion stockholders will not know with certainty at the time they vote the value of the shares of Kforce common stock they will receive in the merger. Based on a Kforce stock market value of $9.17 and based on those assets and liabilities of Hall Kinion at December 28, 2003 and the pro forma adjustments on page F-3, the value of the identifiable assets, goodwill and liabilities of Hall Kinion to be acquired or assumed in the merger by Kforce would be $31.0 million, $56.3 million and $34.7 million, respectively. Kforce common stock is traded on the Nasdaq National Market under the symbol KFRC.

Subject to the limitations and qualifications summarized in The Merger Material United States Federal Income Tax Consequences section of this document beginning on page 62, the merger will be tax-free to Hall Kinion stockholders, except to the extent of any cash received by Hall Kinion stockholders in the merger.

Hall Kinion has scheduled a special meeting of its stockholders on May 20, 2004 at 11:00 a.m. local time to vote on the merger proposal at the law offices of Gibson, Dunn & Crutcher LLP located at One Montgomery Street, Suite 3100, San Francisco, California 94104. Regardless of the number of shares that you own or whether you plan to attend a meeting, it is important that your shares be represented and voted. Voting instructions are inside.

The Hall Kinion board of directors has unanimously approved the merger agreement and determined that the merger agreement and the merger are advisable and in the best interests of Hall Kinion and its stockholders. Accordingly, the Hall Kinion board of directors recommends that Hall Kinion stockholders vote to adopt the merger agreement.

This document provides you with detailed information about the proposed merger. We encourage you to read this entire document carefully.

See Risk Factors beginning on page 20 of this document for a discussion of various risks you should consider in evaluating the merger.

We believe that this merger will benefit our stockholders and we ask for your support in voting for the merger proposal at our special meeting.

Brenda C. Rhodes

Chairman and Chief Executive Officer

Hall, Kinion & Associates, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this proxy statement/prospectus or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated April , 2004, and is first being mailed to Hall Kinion stockholders on or about April , 2004.

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HALL, KINION & ASSOCIATES, INC.

75 ROWLAND WAY, SUITE 200

NOVATO, CALIFORNIA 94945

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 20, 2004

To Hall, Kinion & Associates, Inc. Stockholders:

You are cordially invited to attend a special meeting of stockholders of Hall, Kinion & Associates, Inc. for the following purposes:

To consider and vote on a proposal to adopt the Amended and Restated Agreement and Plan of Merger, dated as of April 5, 2004, among Hall Kinion, Kforce Inc., and Novato Acquisition Corporation, a wholly-owned subsidiary of Kforce. A copy of the merger agreement is attached as Annex A to the proxy statement/prospectus accompanying this notice. Approval and adoption of the merger agreement will also constitute approval of the merger and the other transactions contemplated by the merger agreement; and

To transact other business as may properly be presented at the meeting or any postponements or adjournments of the meeting.

The date, time and place of the meeting are as follows:

May 20, 2004

11:00 a.m., local time

Law Offices of Gibson, Dunn & Crutcher LLP

One Montgomery Street

Suite 3100

San Francisco, California 94104

Only stockholders of record at the close of business on April 6, 2004 are entitled to notice of and to vote at the meeting and any postponements or adjournments of the meeting. Hall Kinion will keep at its offices in Novato, California a list of stockholders entitled to vote at the meeting available for inspection for any purpose relevant to the meeting during normal business hours for the ten days before the meeting. As of April 6, 2004, there were 12,590,733 shares of Hall Kinion common stock outstanding. Each share of Hall Kinion common stock is entitled to one vote on each matter properly brought before the meeting.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SUBMIT YOUR PROXY IN ANY ONE OF THE FOLLOWING WAYS:

USE THE TOLL-FREE TELEPHONE NUMBER SHOWN ON THE PROXY CARD;

USE THE INTERNET WEBSITE SHOWN ON THE PROXY CARD; OR

COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE. IT REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

You may revoke your proxy in the manner described in the accompanying proxy statement/prospectus. If you attend the special meeting of stockholders, you may vote your shares in person even if you have previously submitted a proxy.

The board of directors of Hall Kinion unanimously recommends that you vote to approve the merger proposal which is described in the accompanying proxy statement/prospectus.

By Order of the Board of Directors,

Martin A. Kropelnicki

Secretary

Novato, California

April   , 2004

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ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates by reference important business and financial information about Kforce and Hall Kinion that is not included in or delivered with this document. See Where You Can Find More Information beginning on page 90.

You can obtain any of the documents incorporated by reference into this document from Kforce or Hall Kinion, respectively, or from the SEC s website at http://www.sec.gov. Documents incorporated by reference are available from Kforce or Hall Kinion, respectively, without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference into this document. You may obtain documents incorporated by reference into this document by requesting them in writing or by telephone from the applicable company as follows:

Kforce Inc.	Hall, Kinion & Associates, Inc.
1001 East Palm Avenue	75 Rowland Way, Suite 200
Tampa, Florida 33605	Novato, California 94945
Attention: Investor Relations	Attention: Investor Relations
Telephone: (813) 552-5000	Telephone: (415) 895-2200

If you would like to request documents incorporated by reference, please do so by May 10, 2004, to receive them before Hall Kinion s special meeting. Please be sure to include your complete name and address in your request. If you request any documents, we will mail them to you by first class mail, or another equally prompt means, within one business day after we receive your request.

This proxy statement/prospectus is accompanied by a copy of Hall Kinion s Annual Report on Form 10-K/A for the fiscal year ended December 28, 2003, as filed with the SEC. The enclosed 10-K/A of Hall Kinion includes important business and financial information about Hall Kinion that is not included in this document. See Where You Can Find More Information beginning on page 80.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why are Kforce and Hall Kinion proposing the merger?

A: Kforce and Hall Kinion believe that the merger of Hall Kinion with Kforce will allow the combined company to leverage complementary strengths in technology and finance and accounting staffing services. Bringing together two strong organizations will benefit current and prospective candidates and client customers and employees. We believe this combination should improve Kforce s liquidity and trading fundamentals and create a stronger public company with better capital market access. During the past three years, Hall Kinion has experienced a substantial reduction in revenues, primarily as a result of the downturn in the high technology business sector, which had been the historical focus of Hall Kinion s business. As a result, Hall Kinion has taken actions to reduce costs in order to match revenues and expenses. During recent years, the costs of being a public company have significantly increased. We believe the potential elimination of significant duplicate public company and executive, general and administrative costs will provide greater earnings and cash flow potential for the combined company, and ultimately greater value to each company s stockholders. As a result of these and other factors, the Hall Kinion board of directors concluded that it was in the best interests of Hall Kinion stockholders for Hall Kinion to seek a merger with a larger company that could finance growth from the combination of the companies and achieve synergies from the integration of the companies executive, general and other administrative functions.

Q: What do I need to do now?

A: After you carefully read this document, mail your signed proxy card in the enclosed return envelope, or submit your proxy by telephone or on the Internet, as soon as possible, so that your shares may be represented at your meeting. In order to ensure that your vote is recorded, please vote your proxy as instructed on your proxy card even if you currently plan to attend your company s special meeting in person.

Q: Why is my vote important?

A: If you do not return your proxy card or submit your proxy by telephone or through the Internet or vote in person at the Hall Kinion special meeting, it will be more difficult for Hall Kinion to obtain the necessary quorum to hold its special meeting. A failure to vote, or an abstention from voting, will have the same effect as a vote against the adoption of the merger agreement.

Q: What vote of Hall Kinion stockholders and what vote of Kforce shareholders is required in connection with the merger?

A: Adoption of the merger agreement requires the affirmative vote of at least a majority of the outstanding shares of Hall Kinion common stock. No vote of Kforce shareholders is required (or will be sought) in connection with the merger.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: No. If you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them on the adoption of the merger agreement. You should therefore be sure to provide your broker with instructions on how to vote your shares. Please check the voting form used by your broker to see if it offers telephone or Internet submission of proxies.

Q: What if I fail to instruct my broker?

A: If you fail to instruct your broker to vote your shares and the broker submits an unvoted proxy, the resulting broker non-vote will be counted toward a quorum at the special meeting but will not count as a vote cast at the special meeting. Broker non-votes will have the same effect as negative votes.

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Q: Can I change my vote after I have mailed my proxy card?

A: Yes. You can change your vote at any time before your proxy is voted at the Hall Kinion special meeting. You can do this in any of the following ways:

timely delivery of a valid, later-dated proxy by mail;

timely delivery of a valid, later dated proxy by telephone by calling 1-888-426-7035;

timely delivery of a valid, later dated proxy via the Internet at http://www.proxyvoting.com/haki;

written notice to Hall Kinion s secretary before the special meeting that you have revoked your proxy; or

voting by ballot at the Hall Kinion special meeting.

If you have instructed a broker to vote your shares, you must follow directions from your broker to change those instructions.

Q: When and where is the special meeting?

A: The Hall Kinion special meeting will take place on May 20, 2004, at the law offices of Gibson, Dunn & Crutcher LLP located at One Montgomery Street, Suite 3100, San Francisco, California 94104, at 11:00 a.m. local time.

Q: How was the exchange ratio and the relevant collar determined?

A: The exchange ratio of .45 was negotiated between the parties and reflects the parties views of the approximate relative worth of Kforce and Hall Kinion based on the subjective evaluation of the management of each party, and taking into account the historical and recent performance of each party, and their respective future prospects, liquidity, stock price and positions within their various geographical markets. The 15% collar was also a negotiated point which recognizes that there is likely to be some fluctuation in the market prices in the common stock of the two companies that would not warrant adjusting the consideration to be paid.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, Kforce will send Hall Kinion stockholders written instructions for exchanging their stock certificates.

Q: When do you expect the merger to be completed?

A: We are working to complete the merger in the second quarter of 2004. However, it is possible that factors outside of our control could require us to complete the merger at a later time or not complete it at all. We hope to complete the merger within one business day following the Hall Kinion stockholder meeting, or as soon as reasonably possible thereafter. However, there may be some delay between the vote to approve the merger and when the merger is actually completed.

Q: ***Will Kforce shareholders receive any shares as a result of the merger?***

A: No. Kforce shareholders will continue to hold the Kforce shares they currently own.

Q: ***Who do I call if I have questions about the special meeting or the merger?***

A: Hall Kinion stockholders may call Martin A. Kropelnicki, Vice President, Chief Financial Officer and Secretary, at (415) 895-2200.

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SUMMARY

This summary highlights material information in this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should carefully read this document and the other documents to which we have referred you. See Where You Can Find More Information beginning on page 80 for more details. We have included page references directing you to a more complete description of each item presented in this summary.

The Companies

Kforce Inc.

1001 East Palm Avenue

Tampa, Florida 33605

(813) 552-5000

Headquartered in Tampa, Florida, Kforce is a full-service specialty staffing firm providing flexible and permanent staffing solutions for hiring organizations and career management for job seekers in the specialty skill areas of:

- Information Technology;
- Finance and Accounting;
- Pharmaceutical;
- HealthCare; and
- Scientific.

Kforce was formed in August 1994 as a result of the combination of Romac & Associates, Inc. and three of its largest franchises. Following an Initial Public Offering in 1995, Kforce grew to 31 offices in 18 major markets. On April 20, 1998, Kforce consummated a merger whereby Source Services Corporation was merged into Kforce. The acquisition was accounted for using the pooling of interests method of accounting; accordingly, all historical results were restated to reflect the merger. Kforce now operates through 62 locations in 45 markets and serves clients from Fortune 1000 as well as local and regional small to mid-size companies, with its largest ten clients representing approximately 16% of revenue in 2003.

Hall, Kinion & Associates, Inc.

75 Rowland Way, Suite 200

Novato, California 94945

(415) 895-2200

Hall, Kinion, The Talent Source® for specialized professionals, delivers world-class talent on a contract and full-time basis to high-demand sectors. Hall Kinion finds, evaluates and places industry-specific Technology and Corporate Professionals.

Founded in 1991, Hall Kinion completed its initial public offering in 1997. Hall Kinion operates two divisions, both of which provide consultants and direct-hire talent: the Technology Professional Division places highly-skilled experts in positions ranging from software engineering to CTO into technology, financial services, healthcare, government and energy sectors; and the Corporate Professional Services Division (OnStaff) places specialists at all levels into real estate, financial services and healthcare sectors. Hall Kinion®, The Talent Source® and OnStaff® are registered trademarks of Hall Kinion.

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The Merger (Page 33)

In the merger, a wholly-owned subsidiary of Kforce, Novato Acquisition Corporation, will merge with and into Hall Kinion and Hall Kinion will become a wholly-owned subsidiary of Kforce. ***The merger agreement is attached as Annex A to this proxy statement/prospectus and we encourage you to read it carefully.***

What You Will Receive in the Merger (Page 57)

In the merger, Hall Kinion stockholders will receive, in exchange for shares of Hall Kinion common stock, an aggregate amount of fully paid and nonassessable shares of Kforce common stock based upon the exchange ratio. The exchange ratio is dependent on the Kforce stock market value. The Kforce stock market value is the average of the per share closing prices of Kforce common stock on the Nasdaq National Market over the 15 consecutive trading days ending on and including the third trading day prior to the date of the merger. If the Kforce stock market value is equal to or greater than $7.09, but less than $9.60, then the exchange ratio will equal .45, which will result in Hall Kinion stockholders receiving between $40.4 million and $55.1 million in Kforce common stock. If the Kforce stock market value is less than $7.09, then the exchange ratio will be $3.19 *divided by* the Kforce stock market value, which will result in Hall Kinion stockholders receiving approximately $40.4 million in Kforce common stock. If the Kforce stock market value is equal to or greater than $9.60, but less than or equal to $10.60, then the exchange ratio will be $4.32 *divided by* the Kforce stock market value, which will result in Hall Kinion stockholders receiving approximately $55.2 million in Kforce common stock. If the Kforce stock market value exceeds $10.60, the exchange ratio will be calculated by dividing $4.32 by $10.60, resulting in a fixed exchange ratio of .4075 for all Kforce stock market values greater than $10.60. The exchange ratio and collar adjustments were determined by arms-length negotiation between Hall Kinion and Kforce after consultation by each of the parties with their respective financial and legal advisors. Assuming the Kforce stock market value is equal to $9.17, which was the average of the per share closing prices of Kforce common stock on the Nasdaq National Market over the 15 consecutive trading days ending on and including the third trading day prior to April 5, 2004, the exchange ratio would equal ,45, which would result in Hall Kinion stockholders receiving approximately $52.6 million in Kforce common stock. We hope to complete the merger within one business day following the Hall Kinion stockholder meeting, or as soon as reasonably possible thereafter. However, there may be some delay between the Hall Kinion stockholders vote to approve the merger and when the merger is actually completed, during which time the price of Kforce common stock could decline. As a result, Hall Kinion stockholders will not know with certainty at the time they vote the value of the shares of Kforce common stock they will receive in the merger. Based on a Kforce stock market value of $9.17 and based on those assets and liabilities of Hall Kinion at December 28, 2003 and the pro forma adjustments on page F-3, the value of the identifiable assets, goodwill and liabilities of Hall Kinion to be acquired or assumed in the merger by Kforce would be $31.0 million, $56.3 million and $34.7 million, respectively.

In addition, Hall Kinion stockholders will receive cash instead of any fractional shares of Kforce common stock to which they are otherwise entitled. The holders of shares of Hall Kinion common stock who would otherwise have been entitled to a fraction of a share of Kforce common stock pursuant to the merger agreement will receive cash in an amount equal to the product of the fractional interest of Kforce common stock the Hall Kinion stockholder would have been entitled to receive multiplied by the Kforce stock market value. For example, if a Hall Kinion stockholder would have been entitled to receive 0.5 shares of Kforce common stock and the Kforce stock market value were $9.17 per share, such Hall Kinion stockholder would receive $4.58 in cash in lieu of 0.5 shares of Kforce common stock. Hall Kinion and Kforce currently estimate that not more than $1,000 cash in the aggregate will likely be paid to holders of Hall Kinion common stock in lieu of fractional shares.

Each outstanding, unexercised and fully vested option to purchase Hall Kinion common stock with an exercise price less than (i) the Kforce stock market value *multiplied by* (ii) the exchange ratio will automatically

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be converted into the right to receive an aggregate amount of shares of Kforce common stock as if such option had been exercised on a net-exercise basis immediately prior to the closing of the merger. All other outstanding options will be automatically cancelled. The term net-exercise basis means that the number of Hall Kinion shares an option holder will be deemed to own will be decreased by the exercise price of such options and the taxes required to be withheld as a result of the exercise. For example, if an individual has options to purchase 75 shares of Hall Kinion stock at $1.00 per share and at the time of the merger the Kforce stock market value is $9.17 per share (resulting in an implied value of $4.13 paid per share), assuming a withholding tax rate of 29.6%, Kforce would issue the option holder 17 shares of Kforce common stock based on the following calculation: 75 Hall Kinion option shares multiplied by the exchange ratio of .45 equals 33.7 shares. The sum of the aggregate exercise price of $75 plus the withholding tax of $69.49 [($4.13-$1.00) x 75 shares x the assumed tax rate of 29.6%] equals $144.49. $144.49 divided by the Kforce stock market value of $9.17 equals 15.8 shares. The option holder would be entitled to receive 33.7 shares less 15.8 shares, or 17.9 shares. Because Kforce will be paying cash in lieu of fractional shares, the option holder will receive 17 shares of Kforce common stock.

Assuming the Kforce stock market value were equal to $9.17, which was the average of the per share closing prices of Kforce common stock on the Nasdaq National Market over the 15 consecutive trading days ending on and including the third trading day prior to April 5, 2004, vested options to purchase 409,761 shares of Hall Kinion common stock would be in-the-money and would be converted into approximately 102,715 shares of Kforce common stock. The actual number of options that will be in the money, and the actual number of shares issuable upon exercise of such options, may increase or decrease based on fluctuations in the Kforce stock market value and the exchange ratio before the merger is completed.

The following table illustrates the aggregate merger consideration and aggregate number of shares of Kforce common stock that Hall Kinion stockholders will receive in the merger in exchange for all of the outstanding shares of Hall Kinion common stock, at different Kforce stock market values randomly selected by us. If the merger is consummated, Hall Kinion stockholders will receive no less than approximately $40.4 million. Kforce has the right, under the terms of the merger agreement, to terminate the merger agreement if the Kforce stock market value is below $7.00. The number of Kforce shares issued includes outstanding Hall Kinion options converted into Kforce shares.

Kforce Stock Market Value	Exchange Ratio	Implied Value Paid	Value Paid per Share	Kforce Shares Issued	Ownership of Kforce after Merger[(1)]
$7.00	.456	$ 40,388,371	$ 3.19	5,769,767	15.8%
$7.09	.450	$ 40,391,561	$ 3.19	5,697,780	15.7%
$8.34	.450	$ 47,557,014	$ 3.75	5,702,280	15.7%
$9.17	.450	$ 52,607,647	$ 4.13	5,736,930	15.8%
$9.59	.450	$ 55,133,676	$ 4.32	5,749,080	15.8%
$10.00	.432	$ 55,142,307	$ 4.32	5,514,231	15.2%
$10.61	.4075	$ 55,256,296	$ 4.32	5,207,945	14.5%
$11.00	.4075	$ 57,294,118	$ 4.48	5,208,556	14.5%

(1) Represents the percentage of the outstanding common stock of Kforce after the merger.

Stockholder Vote Required (Page 31)

Adoption of the merger agreement requires the affirmative vote of at least a majority of the outstanding shares of Hall Kinion common stock. On the record date, directors and executive officers had the right to vote 2,983,039 shares of Hall Kinion common stock, representing approximately

23.7% of the shares of Hall Kinion

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common stock outstanding and entitled to vote at the special meeting. To Hall Kinion s knowledge, directors and executive officers of Hall Kinion and their affiliates intend to vote their common stock in favor of the adoption of the merger agreement.

Each of Brenda C. Rhodes, Jeffrey A. Evans, Herbert I. Finkelman, Rita S. Hazell, Todd J. Kinion, Martin A. Kropelnicki, Jon H. Rowberry, Jack F. Jenkins-Stark and Michael S. Stein, each a director and/or executive officer of Hall Kinion, who together hold shares of Hall Kinion common stock representing approximately 23.7% of the voting power of Hall Kinion, has entered into a voting agreement with Kforce in which he or she has agreed to vote (i) in favor of the approval of the merger agreement, (ii) against any action that would result in any of the conditions of Kforce s obligations under the merger agreement not being fulfilled, (iii) against any action that would result in a breach by Hall Kinion of any of its covenants, representations or warranties under the merger agreement, and (iv) against (A) any third party acquisition proposal, or (B) the election of a group of individuals to replace a majority or more of the individuals on the Hall Kinion board of directors. A form of Hall Kinion voting agreement is attached to this proxy statement/prospectus as part of Annex A. You should read it in its entirety.

Conditions to the Consummation of the Merger (Page 67)

The completion of the merger depends on the satisfaction or waiver of a number of conditions set forth in the merger agreement, including, but not limited to, the following:

- the approval of the merger and the adoption of the merger agreement by the Hall Kinion stockholders;
- the approval of the shares of Kforce common stock to be issued to Hall Kinion stockholders in the merger for trading on the Nasdaq National Market;
- the registration statement of which this proxy statement/prospectus is a part being declared effective by the SEC and the absence of any stop order suspending the effectiveness of the registration statement;
- the accuracy of all of Kforce s representations and warranties as of the date of the merger agreement and the closing date, as qualified in the merger agreement;
- the accuracy of all of Hall Kinion s representations and warranties as of the date of the merger agreement and the accuracy of certain of Hall Kinion s representations and warranties as of the closing date, as qualified in the merger agreement;
- the performance or compliance in all material respects with all agreements and covenants set forth in the merger agreement;
- the receipt of all consents and approvals of third parties as set forth in the merger agreement;
- the absence of any law, temporary restraining order, injunction or other order issued by a court that has the effect of making the merger illegal or otherwise prohibiting the merger; and
- the expiration or termination of the waiting period applicable to the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

At any time prior to the effective time of the merger, Kforce and Hall Kinion may, to the extent legally allowed, extend the time for performance of any of the obligations or other acts set forth in the merger agreement, waive any inaccuracies in the representations or warranties set forth in the merger agreement and waive compliance with any of the agreements or conditions set forth in the merger agreement.

Kforce and Hall Kinion cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

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Termination of the Merger Agreement (Page 68)

Kforce and Hall Kinion may terminate the merger agreement by mutual written consent.

Either Kforce or Hall Kinion may terminate the merger agreement if:

- the merger is not completed by June 30, 2004 but only if the party seeking termination did not fail to fulfill any obligation under the merger agreement that has been a material cause of the failure of the closing to occur on or before June 30, 2004;
- any governmental entity issues a non-appealable final order permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the merger agreement or fails to issue an order necessary to satisfy a closing condition to the merger and such failure becomes final and non-appealable;
- the other party materially breaches any of the representations or warranties set forth in the merger agreement, and such breach or failure cannot be cured before June 30, 2004;
- the other party materially breaches any of its covenants or agreements set forth in the merger agreement, and such breach cannot be cured within 20 business days after written notice thereof;
- under certain circumstances, Hall Kinion takes action with respect to or pursues an unsolicited third-party acquisition proposal that is or may be superior to the merger with Kforce; or
- Hall Kinion stockholders do not approve the merger and adopt the merger agreement.

Kforce may terminate the merger agreement if:

- the Hall Kinion board of directors withdraws, modifies, qualifies or fails to make or reconfirm its recommendation to the Hall Kinion stockholders, or Hall Kinion willfully and materially breaches its obligation to call a stockholders meeting;
- Hall Kinion willfully and materially breaches its non-solicitation obligations;
- between April 5, 2004 and the closing of the merger, the average of the closing sales prices of Kforce common stock on the Nasdaq National Market shall have been less than $7.00 per share for 15 consecutive trading days; or
- Hall Kinion materially breaches the management agreement or the management agreement is terminated (other than a termination of the management agreement by Hall Kinion because of an uncured material breach of the management agreement by Kforce).

Termination Fees (Page 70)

Termination of the merger agreement by Kforce under specified circumstances, including if (i) Hall Kinion enters into or consummates a similar transaction with a third party, (ii) the Hall Kinion board of directors withdraws, modifies, qualifies or fails to make its recommendation to the Hall Kinion stockholders, or (iii) Hall Kinion materially breaches its obligation to call a stockholders meeting, could result in Hall Kinion being required to pay to Kforce a termination fee in an amount equal to $6.0 million. In addition to the termination fee, Hall Kinion must pay Kforce an amount equal to the difference, if any, between 3% of the transaction value paid to Hall Kinion s stockholders by a third party and $6.0 million if: (i) at any time after the date of the merger agreement and before Hall Kinion s stockholders approve the merger, a third party acquisition proposal with respect to Hall Kinion has been publicly announced or otherwise communicated to the stockholders of Hall Kinion; and (ii) prior to December 31, 2004, Hall Kinion or any of its subsidiaries enters into any definitive agreement with respect to, or consummates, any acquisition proposal. Such additional termination fee could discourage other companies from trying or proposing to combine with Hall Kinion.

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Termination of the merger agreement by Kforce for any reason other than: (i) under those circumstances set forth in the preceding paragraph; (ii) upon the mutual written consent of Kforce and Hall Kinion; (iii) as a result of the failure to obtain Hall Kinion stockholder approval; (iv) as a result of a breach of any representation, warranty or covenant of Hall Kinion; (v) if the average of the closing share prices of Kforce common stock on the Nasdaq National Market shall have been less than $7.00 per share for 15 consecutive trading days; (vi) as a result of Hall Kinion s failure to satisfy a condition to closing; or (vii) as a result of any material breach of the management agreement by Hall Kinion or a termination of the management agreement (other than because of an uncured material breach of the management agreement by Kforce); could result in Kforce being required to pay to Hall Kinion a termination fee in the amount of $6.0 million.

Recommendation of Hall Kinion s Board of Directors (Page 42)

The Hall Kinion board of directors has unanimously approved the merger agreement and the transactions contemplated thereby and believes that the terms of the merger agreement and the merger are fair to, and in the best interests of, Hall Kinion and its stockholders. The Hall Kinion board of directors recommends that the Hall Kinion stockholders approve the merger and adopt the merger agreement.

In reaching its decision, the Hall Kinion board of directors consulted with its management team and advisors and considered the proposed merger agreement and the transactions contemplated by the merger agreement. During the course of its deliberations, the Hall Kinion board of directors considered a number of factors, including without limitation:

- current market prices for Hall Kinion common stock, the fluctuation in historical trading prices of the Hall Kinion common stock, the lack of liquidity in the market for Hall Kinion common stock, the inability to use Hall Kinion common stock at current price levels as consideration for acquisitions, which limits Hall Kinion s growth potential, and the fact that the merger consideration includes a premium over the market price for Hall Kinion common stock on the last trading day before the merger was announced;

- the greater liquidity of Kforce s common stock following the merger as compared to Hall Kinion s common stock;

- the fact that Hall Kinion s stockholders will have the opportunity to participate in the growth and opportunities of the combined company;

- the likelihood that other offers or expressions of interest at prices higher than the merger consideration would have been expected to have surfaced prior to the execution of the merger agreement as a result of the marketing efforts conducted by Baird;

- the Hall Kinion board of directors knowledge of Hall Kinion s business, current financial condition and liquidity, the nature of the markets in which Hall Kinion competes and Hall Kinion s position in those markets, Hall Kinion s prospects for future growth as an independent company as compared with prospects as part of a larger enterprise; and the likelihood of further consolidation occurring in the industry and the effects of such consolidation;

- the historical and potentially continuing downturn in technology spending, particularly by companies that historically had been part of Hall Kinion s primary customer base, and the downturn in the demand for services in Hall Kinion s OnStaff division;

- the potential reduction in Hall Kinion s liquidity under its line of credit as a result of decreased revenues, which results in a reduced borrowing base;

the potential synergies, cost savings and economies of scale resulting from the combined executive, general and administrative functions of the two companies following the merger;

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Hall Kinion s ability, subject to certain conditions, to respond to, and to accept, an unsolicited offer that is superior to the merger, if failing to do so would breach the fiduciary responsibilities of the Hall Kinion board of directors;

the fact that the merger is a tax-free reorganization, which will permit Hall Kinion stockholders to defer payment of capital gains taxes until they sell shares of Kforce common stock received in the merger;

the other terms of the merger agreement; and

the analyses and financial presentations to the Hall Kinion board of directors in connection with the Hall Kinion board of directors consideration of the merger, including the opinion of Baird that the exchange ratio to be received by the Hall Kinion stockholders was fair, from a financial point of view.

In addition to the positive factors summarized above, the Hall Kinion board of directors also considered the following negative factors in reaching its determination:

the possibility that the merger might not be consummated, the impact of the transaction costs incurred if the merger is not completed, the risks associated with potential fluctuations in the price of Kforce common stock prior to the closing of the merger, including Kforce s right to terminate the merger if its stock price decreases to less than $7.00 per share over a period of time prior to the closing of the merger and the effect of the public announcement of the merger on Hall Kinion s sales, operating results, stock price and relations with employees and customers;

the risk that the potential benefits and synergies in the merger might not be fully realized;

the risk of a stock price decline in Kforce stock following the completion of the merger;

the costs and potential operational problems that may be incurred in the integration of the two companies operations;

the risks associated with diversion of management resources from operational matters for an extended period of time; and

the risks described under the section entitled Risk Factors beginning on page 20 of this proxy statement/prospectus.

Kforce s Termination Rights (Page 68)

Kforce may terminate the merger agreement if the average of the closing share prices of Kforce common stock on the Nasdaq National Market shall have been less than $7.00 per share for 15 consecutive trading days. Kforce has not concluded whether it would exercise its walk-away rights if it had the opportunity to do so. Kforce s determination of whether to proceed with the transaction in such a case will be based upon its board s careful consideration, exercising its reasonable business judgment consistent with its fiduciary duties to Kforce s shareholders, of the impact of the event triggering any walk-away rights on the valuation of Hall Kinion s business in the merger and other strategic alternatives to the merger which may then be available to Kforce, as well as general market and industry conditions. Kforce s board of directors reserves the right not to exercise its walk-away rights and to consummate the transaction if, taking into account its responsibilities, it determines that proceeding with the transaction is in its shareholders best interest.

Opinion of Hall Kinion s Financial Advisor (Page 43)

In connection with the merger, the Hall Kinion board of directors received a written opinion from Robert W. Baird & Co. Incorporated as to the fairness, from a financial point of view, of the exchange ratio to be received in the merger by the holders of Hall Kinion common stock. The full text of the Robert W. Baird & Co. Incorporated written opinion, dated April 5, 2004, is attached to this proxy statement/prospectus as Annex B. Kforce and

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Hall Kinion encourage you to read this opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. **The Robert W. Baird & Co. Incorporated opinion is addressed to the Hall Kinion board of directors, and does not constitute a recommendation to any stockholder with respect to any matters relating to the proposed merger.**

Material United States Federal Income Tax Consequences (Page 53)

The merger has been structured to qualify as a reorganization for United States federal income tax purposes, Accordingly, subject to the limitations and qualifications summarized in The Merger Material United States Federal Income Tax Consequences beginning on page 53, the exchange of Hall Kinion common stock for Kforce common stock, other than cash paid for fractional shares, should be tax-free to Hall Kinion stockholders for United States federal income tax purposes. In connection with the filing of this proxy statement/prospectus, Hall Kinion and Kforce have received legal opinions from their respective tax counsel to the effect that the merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. However, neither Kforce nor Hall Kinion has requested nor will either request a ruling from the Internal Revenue Service with regard to any of the tax consequences of the merger. If the Internal Revenue Service were to assert successfully that the merger is not a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, then the exchange of Hall Kinion common stock for Kforce common stock would not be tax-free to Hall Kinion stockholders. Tax matters are very complicated and the tax consequences of the merger to you will depend on your own personal circumstances. **You should consult your tax advisor for a full understanding of all of the federal, state, local and foreign income and other tax consequences of the merger to you.**

Accounting Treatment (Page 53)

The merger will be accounted for as a purchase under accounting principles generally accepted in the United States of America.

Interests of Hall Kinion Directors and Officers in the Merger (Page 73)

Certain Hall Kinion directors and executive officers have interests in the merger that are different from, or are in addition to, those of other stockholders. These interests include: (i) the continued indemnification of current directors and officers of Hall Kinion; (ii) in the case of Brenda C. Rhodes and Rita S. Hazell, change of control payments in the amount of $1.1 million and $980,000 owed to them, respectively, as a result of the merger; (iii) in the case of Martin A. Kropelnicki, salary at an annual rate of $300,000 for employment during a transition period following the merger and a cash payment of $990,000 after termination of employment; (iv) in the case of David Healey, salary at an annual rate of $135,000 for employment during a transition period following the merger and a cash payment of $198,000 after termination of employment; (v) in the case of Ms. Rhodes, Ms. Hazell, Mr. Kropelnicki and Mr. Healey, the acceleration of the vesting of certain stock options held by them that will be converted into 17,734 shares of Kforce common stock (assuming a Kforce stock market value of $9.17); (vi) in the case of Ms. Rhodes, the acceleration of $1.05 million in compensation otherwise owed to her; (vii) in the case of Ms. Rhodes and Ms. Hazell, the acceleration of the forgiveness of approximately $300,000 and $58,000 of indebtedness owed to Hall Kinion by Ms. Rhodes and Ms. Hazell, respectively; and (viii) in the case of Ms. Rhodes and Todd Kinion, the release and reimbursement of any amounts drawn upon certain letters of credit issued by Ms. Rhodes and Mr. Kinion in the aggregate amount of $5.0 million to guaranty an increase in Hall Kinion s credit facility. The members of Hall Kinion s board of directors were aware of, and considered the interests of, themselves and Hall Kinion s executive officers in approving the merger and adopting the merger agreement.

Regulatory Clearances and Approvals (Page 55)

Kforce and Hall Kinion have notified and furnished information to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of

1976, as amended, and the applicable waiting period has terminated. Although the waiting period has terminated, the Federal Trade Commission, the Antitrust Division, any state or any private party may challenge the merger at any time before or after its completion.

No Appraisal Rights (Page 55)

Stockholders are not entitled to appraisal rights in connection with the merger.

Quotation on the Nasdaq National Market (Page 55)

Kforce s common stock is currently traded on the Nasdaq National Market under the symbol KFRC. It is a condition to the merger that the shares of Kforce common stock to be issued in the merger be approved for trading on the Nasdaq National Market subject to official notice of issuance.

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Kforce Selected Historical Consolidated Financial Data

The selected consolidated historical financial information set forth below under the captions Consolidated Statement of Operations Data and Consolidated Balance Sheet Data for, and as of the end of, each of the fiscal years in the five-year period ended December 31, 2003, are derived from Kforce s historical audited financial statements. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Kforce and the consolidated financial statements and notes thereto incorporated by reference into this proxy statement/prospectus. Historical results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31				
	1999	2000	2001	2002	2003
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net service revenues	$ 754,710	$ 805,020	$ 658,417	$ 513,547	$ 495,585
Direct costs of services	432,079	443,464	406,017	345,585	341,617
Gross profit	322,631	361,556	252,400	167,962	153,968
Selling, general and administrative expenses	346,452	341,812	244,792	168,233	142,915
Depreciation and amortization	14,514	18,440	17,325	9,629	4,371
Income (loss) from operations	(38,335)	1,304	(9,717)	(9,900)	6,682
Other (income) expense, net	(942)	113	4,460	3,206	1,214
Income (loss) before income taxes	(37,393)	1,191	(14,177)	(13,106)	5,468
Benefit (provision) for income taxes	13,877	(1,474)	2,089	(102)	(350)
Net income (loss) before cumulative effect of change in accounting principle	(23,516)	(283)	(12,088)	(13,208)	5,118
Cumulative effect of change in accounting principle				(33,823)	
Net income (loss)	$ (23,516)	$ (283)	$ (12,088)	$ (47,031)	5,118
Net income (loss) per share basic	$ (0.53)	$ (0.01)	$ (0.38)	$ (1.49)	0.17
Weighted average shares outstanding basic	44,781	42,886	31,711	31,577	30,514
Net income (loss) per share diluted	$ (0.53)	$ (0.01)	$ (0.38)	$ (1.49)	0.16
Weighted average shares outstanding diluted	44,781	42,886	31,711	31,577	31,231

	As of December 31,				
	1999	2000	2001	2002	2003
	(In thousands)				
Consolidated Balance Sheet Data:					
Working capital	$ 86,310	$ 70,885	$ 43,083	$ 32,126	$ 42,183
Total assets	$ 296,187	$ 278,018	$ 222,772	$ 151,435	$ 160,317
Total long-term debt	$	$ 45,000	$ 28,185	$ 22,000	$ 22,000

Stockholders equity	$ 218,205	$ 155,037	$ 138,809	$ 84,846	$ 91,405

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Hall Kinion Selected Historical Consolidated Financial Data

The selected consolidated historical financial information set forth below under the captions Consolidated Statement of Operations Data and Consolidated Balance Sheet Data for, and as of the end of, each of the fiscal years ended December 28, 2003, December 29, 2002, December 30, 2001, December 31, 2000 and December 26, 1999, are derived from Hall Kinion s historical audited financial statements. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Hall Kinion and the consolidated financial statements and notes thereto incorporated by reference into this proxy statement/prospectus. Historical results are not necessarily indicative of results to be expected for any future period.

	Fiscal Year Ended				
	1999	**2000**	**2001**	**2002**	**2003**
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net service revenues	$ 180,749	$ 296,491	$ 173,836	$ 120,428	$ 156,919
Cost of contract services	96,502	147,539	100,834	80,744	111,616
Gross profit	84,247	148,952	73,002	39,684	45,303
Selling, general and administrative expenses	67,827	120,905	91,952	43,705	46,607
Depreciation and amortization	2,905	4,588	4,868	3,702	3,104
Impairment of goodwill			26,736	15,478	
Restructuring costs (income)			17,048	(6)	2,792
Income (loss) from operations	13,515	23,459	(67,602)	(23,195)	(4,096)
Other (income) expense, net	477	(1,615)	(1,181)	323	295
Income (loss) before income taxes	13,038	25,074	(66,421)	(23,518)	(4,391)
Benefit (provision) for income taxes	(5,382)	(10,464)	20,809	2,870	(14,181)
Net income (loss)	$ 7,656	$ 14,610	$ (45,612)	$ (20,648)	$ (18,572)
Net income (loss) per share basic	$ 0.75	$ 1.18	$ (3.48)	$ (1.66)	$ (1.47)
Net income (loss) per share diluted	$ 0.71	$ 1.10	$ (3.48)	$ (1.66)	$ (1.47)
Weighted average shares outstanding basic	10,155	12,357	13,121	12,475	12,592
Weighted average shares outstanding diluted	10,716	13,267	13,121	12,475	12,592

	As of Fiscal Year Ended				
	1999	**2000**	**2001**	**2002**	**2003**
	(In thousands)				
Consolidated Balance Sheet Data:					
Working capital (deficit)	$ 15,560	$ 64,819	$ 36,721	$ 6,916	$ (972)
Total assets	$ 76,554	$ 139,821	$ 89,459	$ 74,906	$ 55,043
Long-term liabilities	$ 14,161	$ 209	$ 6,470	$ 6,201	$ 4,228
Stockholders equity	$ 43,969	$ 110,762	$ 64,781	$ 43,767	$ 25,293

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Selected Unaudited Pro Forma Condensed Combined Financial Data

The following selected unaudited pro forma condensed combined financial statements have been prepared to give effect to the proposed business combination of Kforce and Hall Kinion using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the selected unaudited pro forma condensed combined financial statements contained elsewhere in this proxy statement. These pro forma statements were prepared as if the business combination of Kforce and Hall Kinion and Hall Kinion s acquisition of OnStaff had been completed as of December 31, 2003 for balance sheet purposes and as of January 1, 2003 for statements of operations purposes.

The selected unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations that would have actually been reported had the business combination occurred as of December 31, 2003 for balance sheet purposes and as of January 1, 2003 for statement of operations purposes, nor is it necessarily indicative of future financial position or results of operations. The selected unaudited pro forma condensed combined financial statements include adjustments, which are based upon preliminary estimates, to reflect the allocation of purchase price to the fair value of the acquired assets and assumed liabilities of Hall Kinion, before any integration adjustments. The final allocation of the purchase price will be determined after the completion of the business combination and will be based upon an independent valuation of the fair values of certain of the net tangible and intangible assets acquired as well as liabilities assumed. The selected unaudited pro forma condensed combined financial statements do not reflect any combination costs or operational synergies resulting from the merger. The selected unaudited pro forma condensed combined financial statements assume the conversion of all vested in-the-money options to purchase shares of Hall Kinion common stock into shares of Kforce common stock under the merger agreement.

Kforce and Hall Kinion expect to incur merger and integration charges as a result of combining the companies. Kforce and Hall Kinion also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The selected unaudited pro forma condensed combined financial data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect these expenses or benefits and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had Kforce and Hall Kinion actually been combined during the periods presented.

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This selected unaudited pro forma condensed combined financial data should be read in conjunction with the selected historical consolidated financial data and the unaudited pro forma condensed combined financial statements and accompanying notes contained elsewhere in this proxy statement/prospectus and the separate historical consolidated financial statements and accompanying notes of Kforce and Hall Kinion incorporated by reference into this proxy statement/prospectus.

	Year Ended December 31, 2003 (In thousands, except per share amounts)
Statement of Operations Data:	
Net service revenues	$ 652,504
Direct cost of services	453,233
Gross profit	199,271
Selling, general and administrative expenses	186,418
Restructuring costs, net	2,792
Depreciation and amortization	8,074
Income from operations	1,987
Other expenses	1,112
Income before income taxes	875
Income tax expense	14,531
Net loss	$ (13,656)
Net (loss) per share Basic	$ (0.38)
Weighted average shares outstanding Basic	36,298
Net loss per share Diluted	(0.37)
Weighted average shares outstanding Diluted	37,015

	As of December 31, 2003 (In thousands)
Balance Sheet Data:	
Working capital	$ 31,407
Total assets	233,913
Total long-term debt	22,816
Stockholders equity	$ 144,013

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Comparative Per Share Data

The following tables present (a) the basic and diluted loss per common share and book value per share data for each of Kforce and Hall Kinion on a historical basis, (b) the historical basic and diluted loss per common share and book value per share for the combined company on a pro forma basis and (c) the historical basic and diluted loss per common share and book value per share for Kforce and Hall Kinion on an equivalent pro forma combined basis. Neither Kforce nor Hall Kinion declared any cash dividends for the periods presented below.

We calculate historical book value per share by dividing stockholders equity by the number of shares of common stock outstanding at December 31, 2003.

We calculate pro forma book value per share by dividing pro forma stockholders equity by the pro forma number of shares of Kforce common stock which would have been outstanding had the merger been consummated as of December 31, 2003. Pro forma combined net loss, pro forma stockholders equity and the pro forma number of shares of Kforce common stock outstanding have been derived from the unaudited pro forma condensed combined financial statements appearing elsewhere in this proxy statement/prospectus and assumes the conversion of all vested in-the-money options to purchase shares of Hall Kinion common stock into shares of Kforce common stock under the merger agreement.

Kforce and Hall Kinion expect to incur merger and integration charges as a result of combining the companies. Kforce and Hall Kinion also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect these expenses or benefits and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had Kforce and Hall Kinion actually been combined during the periods presented.

	For the Year Ended December 31, 2003(1)
Historical Kforce Inc.	
Net income (loss) per common share basic	$0.17
Net income (loss) per common share diluted	0.16
Book value per common share at period end	2.99
Historical Hall Kinion[1]	
Net income (loss) per common share basic	(1.47)
Net income (loss) per common share diluted	(1.47)
Book value per common share at period end	2.01

	For the Year Ended December 31, 2003		
Exchange Ratio[8]	.4075[1][4][8]	.450[1][2][8]	.456[1][3][8]
Pro forma combined per share[5]			
Basic net income (loss) per common share	(0.38)	(0.38)	(0.38)
Diluted net income (loss) per common share	(0.37)	(0.37)	(0.37)
Book value per common share at period end[6]	4.10	3.97	3.63
Pro forma combined per Hall Kinion equivalent share[7]			
Basic net income (loss) per common share	(0.16)	(0.17)	(0.17)
Diluted net income (loss) per common share	(0.15)	(0.17)	(0.17)

Book value per common share at period end	1.67	1.79	1.65

(1) The historical amounts for Hall Kinion and the combined pro forma amounts for Hall Kinion and Kforce reflect historical amounts for Hall Kinion for the twelve months ended December 28, 2003.

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(2) These calculations are based on an exchange ratio of .45 of a share of Kforce stock to be issued for each Hall Kinion share (or exchangeable stock option). This exchange ratio assumes an average share price for Kforce common stock of between $7.09 per share and $9.60 per share, which represents the floor and ceiling price within which the exchange ratio is fixed at .45. If the average per share closing price of Kforce common stock for the 15 consecutive trading days ending on and including the third trading day preceding the closing date is less than $7.09 per share, the exchange ratio will be adjusted upward to an exchange ratio calculated by dividing $3.19 by the Kforce market value per share. If the average per share closing price of Kforce common stock is equal to or greater than $9.60 per share, but is less than or equal to $10.60 per share, the exchange ratio will be adjusted downward to an exchange ratio calculated by dividing $4.32 by the Kforce market value per share. However, if the Kforce stock market value exceeds $10.60, the exchange ratio will be calculated by dividing $4.32 by $10.60, resulting in a fixed exchange ratio of .4075 for all Kforce stock market values greater than $10.60.

(3) These calculations are based on an assumed Kforce average share price of $7.00 per share, which would result in an exchange ratio of .456 of a share of Kforce stock for each Hall Kinion share (or exchangeable stock option). Kforce may terminate the merger agreement if the average of the closing sales prices of Kforce common stock on the Nasdaq National Market is less than $7.00 per share for 15 consecutive trading days. The pro forma per share data would not be materially impacted for Kforce stock market values between $7.00 and $7.09.

(4) These calculations are based on an assumed Kforce average share price of $10.61 per share, which would result in an exchange ratio of .4075 of a share of Kforce stock for each Hall Kinion share (or exchangeable stock option). The Kforce average share price of $10.61 per share is the price at which the exchange ratio becomes fixed at .4075.

(5) Pro forma combined income from continuing operations per share is computed by dividing pro forma combined income from continuing operations by the sum of Kforce s basic or diluted weighted average shares during the period plus the number of Kforce s shares assumed to be issued in the merger.

(6) Pro forma combined book value per share is computed by dividing pro forma shareholders equity by the number of shares of Kforce common stock outstanding as of December 31, 2003 plus the number of shares of Kforce common stock assumed to be issued in the merger.

(7) Pro forma combined per equivalent Hall Kinion share amounts are computed by multiplying the exchange ratio by the corresponding pro forma per share amounts.

(8) The total number of pro forma shares that would be outstanding under each of the exchange ratios is presented below. The number of new Kforce shares issued is calculated by multiplying the exchange ratio by the estimated outstanding shares of Hall Kinion at closing. The number of new Kforce shares issued includes outstanding Hall Kinion options converted into Kforce shares.

	Outstanding shares as of December 31, 2003		
Exchange Ratio	**.4075**	**.450**	**.456**
		(in thousands)	
Kforce	30,553	30,553	30,553
New Kforce shares	5,208	5,737	5,770
Total	35,761	36,290	36,323

	Weighted average shares basic For the year ended December 31, 2003		
Exchange Ratio	**.4075**	**.450**	**.456**
		(in thousands)	
Kforce	30,514	30,514	30,514
New Kforce shares	5,208	5,737	5,770
Total	35,722	36,251	36,284

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	Weighted average shares diluted For the year ended December 31, 2003		
Exchange Ratio	**.4075**	**.450**	**.456**
		(in thousands)	
Kforce	31,231	31,231	31,231
New Kforce shares	5,208	5,737	5,770
Total	36,439	36,968	37,001

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Comparative Market Price and Dividend Information

Kforce common stock trades on the Nasdaq National Market under the symbol KFRC. Hall Kinion common stock trades on the Nasdaq National Market under the symbol HAKI.

The table below sets forth, for the Kforce fiscal quarters indicated, the high and low sale prices of Kforce and Hall Kinion common stock as reported on the Nasdaq National Market, in each case based on published financial sources.

	Kforce Common Stock		Hall Kinion Common Stock	
	High	Low	High	Low
2002				
1st Qtr	6.40	4.05	9.95	6.50
2nd Qtr	6.20	3.77	12.00	6.00
3rd Qtr	6.05	2.55	9.14	4.80
4th Qtr	5.14	1.63	7.08	4.75
2003				
1st Qtr	4.42	1.70	6.11	0.67
2nd Qtr	5.39	2.37	3.24	1.20
3rd Qtr	8.68	4.76	5.11	2.56
4th Qtr	9.46	7.29	5.05	3.70
2004				
1st Qtr	11.00	8.61	5.71	2.65
2nd Qtr (through April 5, 2004)	10.00	9.10	3.07	2.70

The following table sets forth trading information for Kforce common stock and Hall Kinion common stock on December 1, 2003 and April 5, 2004. December 1, 2003 was the day preceding the date Kforce and Hall Kinion announced the signing of the original merger agreement. April 5, 2004 was the last trading day before the date Kforce and Hall Kinion announced the signing of the merger agreement. We cannot assure you what the market price of the Kforce common stock will be at the merger date. The prices of each company s common stock will fluctuate prior to the special meeting and the merger, and you should obtain current market quotations. The market price of Kforce common stock has fluctuated substantially in the past and could fluctuate substantially in the future. Those fluctuations may adversely affect the price of Kforce common stock and the value of the shares of Kforce common stock that Hall Kinion stockholders receive in the merger. Among other things, volatility in the price of Kforce common stock could mean that investors will not be able to sell their shares at or above the current market price of Kforce common stock. The volatility also could impair Kforce s ability in the future to offer common stock as a source of additional capital or as consideration in the acquisition of other businesses.

	Kforce Common Stock	Hall Kinion Common Stock
Closing price on December 1, 2003	$ 8.34	$ 4.23
Closing price on April 5, 2004	9.59	3.06

Neither Kforce nor Hall Kinion has ever declared or paid cash dividends on its capital stock. Kforce does not anticipate paying cash dividends on its common stock in the foreseeable future.

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RISK FACTORS

You should carefully consider the following factors, in addition to the other information included elsewhere in this proxy statement/prospectus and the documents that Kforce has filed with the SEC and the Hall Kinion documents accompanying this proxy statement/prospectus, in considering what action to take in connection with the merger. Unless the context requires otherwise, the use of the combined company or Kforce refers to the combined company of Kforce and Hall Kinion after giving effect to the merger.

Risks Relating to the Proposed Merger

Kforce and Hall Kinion may not achieve the benefits they expect from the merger which may have a material adverse effect on the combined company s business, financial and operating results.

Kforce and Hall Kinion entered into the merger agreement with the expectation that the merger will result in benefits to the combined company arising out of the combination of executive management, general and administration functions and facilities plus the elimination of costs relating to Hall Kinion s status as a public reporting company. To realize any benefits from the merger, the combined company will face the following post-merger challenges:

- expected cost savings and synergies from the merger may not be realized;
- the management and employees of each company, particularly the sales force, may not be retained and assimilated as expected;
- existing customers, strategic partners and suppliers of each company may not be retained; and
- uniform standards, controls, procedures, policies and information systems between the two companies may not be successfully developed or maintained.

If the combined company is not successful in addressing these and other challenges, then the benefits of the merger may not be realized and, as a result, the combined company s operating results and the market price of Kforce s common stock may be adversely affected. These challenges, if not successfully met by the combined company, could result in possible unanticipated costs, diversion of management attention and loss of personnel. Neither Kforce nor Hall Kinion can assure you that the combined company will successfully integrate Hall Kinion s business with Kforce s, or profitably manage the combined company. Further, neither Kforce nor Hall Kinion can assure you that the growth rate of the combined company after the merger will equal the historical growth rates experienced by Kforce or Hall Kinion.

If the costs associated with the merger exceed the benefits, the combined company may experience adverse financial results.

Kforce and Hall Kinion will incur significant transaction costs as a result of the merger, including investment banking, legal and accounting fees, that may exceed their current estimates. In addition, Kforce and Hall Kinion expect that the combined company will incur consolidation and integration expenses which they cannot accurately estimate at this time. Actual transaction costs may substantially exceed Kforce s and Hall

Kinion s current estimates and may affect the combined company s financial condition and operating results negatively. If the benefits of the merger do not exceed the costs associated with the merger, including any dilution to Kforce s shareholders resulting from the issuance of shares in connection with the merger, the combined company s financial results could be adversely affected.

The market price of Kforce s common stock may decline as a result of the merger.

The market price of Kforce s common stock may decline as a result of the merger for a number of reasons, including if:

- the integration of Kforce and Hall Kinion is not completed in a timely and efficient manner;

- the combined company does not achieve the perceived benefits of the merger as rapidly or to the extent anticipated by financial or industry analysts;

- the effect of the merger on the combined company s financial results is not consistent with the expectations of financial or industry analysts; or

- significant stockholders of Kforce or Hall Kinion decide to dispose of their stock following completion of the merger.

Sales of substantial amounts of Kforce common stock in the public market after the proposed merger could materially adversely affect the market price of Kforce common stock.

Kforce expects to issue a significant number of shares of Kforce common stock to Hall Kinion stockholders in the merger dependent on the Kforce stock market value at the time of closing of the merger. The sale of substantial amounts of Kforce common stock may result in significant fluctuations in the price of Kforce common stock and could cause Kforce s common stock price to fall. The sale of these shares could also impair the combined company s ability to raise capital through sales of additional common stock.

Failure to complete the merger could negatively impact the market price of Hall Kinion common stock and Kforce common stock.

The obligations of Hall Kinion and Kforce to complete the merger are subject to the satisfaction or waiver of certain conditions. See The Merger Agreement Conditions to the Consummation of the Merger beginning on page 67 of this proxy statement/prospectus for a discussion of these conditions. If these conditions are not satisfied or waived, the merger may not be completed. If the merger is not completed for any reason, both Hall Kinion and Kforce may be subject to other material risks, including:

- a negative effect on the stock trading price of Hall Kinion common stock and Kforce common stock to the extent that the current market price reflects a market assumption that the merger will be completed;

- either party may be required to pay a termination fee see The Merger Agreement Termination Fees beginning on page 70 of this proxy statement/prospectus for a discussion of the termination fees; and

- costs related to the merger, such as legal and accounting fees, must be paid even if the merger is not completed.

Certain of Hall Kinion s officers and directors have interests different from yours that may influence them to support or approve the merger.

Certain directors and officers of Hall Kinion have pre-existing arrangements that may result in the realization of interests in the merger that are different from, or in addition to, yours, including the following:

- because the merger will result in a sale and change of control of Hall Kinion, certain stock options held by Hall Kinion s directors and officers will accelerate and immediately vest upon a change of control;

- under existing Hall Kinion employment and similar agreements, and/or as confirmed in termination letter agreements, certain severance payments will be triggered as a result of the merger;

- in the case of Brenda C. Rhodes, certain payments of compensation otherwise owed to her will be accelerated as a result of the merger;

- in the case of Ms. Rhodes and Rita S. Hazell, the forgiveness of certain outstanding indebtedness will be accelerated; and

- in the case of Ms. Rhodes and Todd Kinion, the release and reimbursement of any amounts drawn upon certain letters of credit issued by Ms. Rhodes and Mr. Kinion in the aggregate amount of $5.0 million to guarantee an increase in Hall Kinion s credit facility.

In addition, the following arrangements have been entered into in connection with the merger:

- Kforce has agreed to cause the surviving corporation in the merger to indemnify each present and former Hall Kinion officer and director against liabilities arising out of such person s services as an officer or director of Hall Kinion prior to the merger to the same extent as is currently available under Hall Kinion s certificate of incorporation and bylaws; and

Kforce has agreed to cause the surviving corporation to maintain officers and directors liability insurance to cover any such liabilities for six years following the merger at a cost not to exceed $1.0 million.

For the above reasons, the directors and officers of Hall Kinion may have been more likely to support and recommend the approval of the merger agreement than if they did not hold these interests. As of the record date, Hall Kinion directors and executive officers held approximately 23.7% of the outstanding shares of Hall Kinion common stock. Hall Kinion stockholders should consider whether these interests may have influenced these directors and officers to support or recommend the merger. You should read more about these interests under Interests of Certain Persons in Merger Interests of Hall Kinion Directors and Officers beginning on page 73.

Hall Kinion s results of operations could be adversely impacted as a result of actions taken by Kforce under the management agreement.

In connection with the merger, the parties have entered into a management agreement pursuant to which Kforce is supervising and managing the day-to-day operations of Hall Kinion. If the merger is not consummated, any actions taken by Kforce, as manager, may have an adverse effect on Hall Kinion s ability to retain employees and key personnel and may have an adverse effect on Hall Kinion s results of operations.

Uncertainty regarding the merger and the effects of the merger could cause each company s customers or strategic partners to delay or defer decisions.

Kforce s and/or Hall Kinion s customers and strategic partners, in response to the announcement of the merger, may delay or defer decisions regarding the use of the combined company s services, which could have a material adverse effect on the business of the combined company or the relevant company if the merger is not completed.

Hall Kinion could lose an opportunity to enter into a merger or business combination with another party on more favorable terms as the merger agreement restricts Hall Kinion from soliciting such proposals.

While the merger agreement is in effect, subject to certain limited exceptions, Hall Kinion is restricted from entering into or soliciting, initiating or encouraging any inquiries or proposals that may lead to a proposal or offer for a merger with any persons other than Kforce. As a result of the restriction, Hall Kinion may lose an opportunity to enter into a transaction with another potential partner on more favorable terms. If Hall Kinion terminates the merger agreement to enter into another transaction, Hall Kinion likely would be required to pay a termination fee to Kforce that may make an otherwise more favorable transaction less favorable. See The Merger Agreement Termination Fees of this proxy statement/prospectus beginning on page 70. In addition, if the merger agreement is terminated and the Hall Kinion board of directors determines that it is in the best interests of the Hall Kinion stockholders to seek a merger or business combination with another strategic partner, Hall Kinion cannot assure you that it will be able to find a partner offering terms equivalent or more attractive than the price and terms offered by Kforce.

Kforce and Hall Kinion may not be able to obtain the required regulatory approvals for completion of the merger.

Kforce and Hall Kinion cannot complete the merger until they give notification and furnish information to the Federal Trade Commission and the Antitrust Division of the Department of Justice and observe a statutory waiting period requirement. Kforce and Hall Kinion filed the required notification and report forms with the Federal Trade Commission and the Antitrust Division on December 17, 2003. Although the waiting period has terminated, at any time before or after the effective time of the merger, the Federal Trade Commission, the Antitrust Division or any state or competition authority of another country could take any action under the applicable antitrust or competition laws as it deems necessary or desirable. This action could include seeking to

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enjoin the completion of the merger. Private parties may also institute legal actions under the antitrust laws under some circumstances.

In considering the opinion by Baird to the Hall Kinion board of directors regarding the fairness of the exchange ratio, stockholders should be aware of potential conflicts of interest affecting Baird.

Baird was retained by Hall Kinion to act as its financial advisor for the proposed merger between Kforce and Hall Kinion. Hall Kinion stockholders should consider the potential conflict of interest in Baird representing Hall Kinion when reviewing Baird s opinion to the Hall Kinion board regarding the fairness of the exchange ratio. A significant portion of the fees related to the financial advisory services of Baird to Hall Kinion in connection with the proposed combination is contingent upon the consummation of the proposed merger and upon the total enterprise value. Baird has also performed investment banking services for Hall Kinion and for Kforce in the past. Over the past two years, Baird has received approximately $75,000 in financial advisory fees from Kforce.

Risks Relating to the Business and Operations of Kforce Following the Merger

The recent economic downturn has adversely affected the demand for Kforce s and Hall Kinion s services.

Historically, the general level of economic activity has significantly affected the demand for employment services. As economic activity slows, the use of temporary and contract personnel tends to be curtailed before permanent employees are laid off. The recent economic downturn adversely affected the demand for temporary and contract personnel, which in turn had an adverse effect on Kforce s and Hall Kinion s results of operations and financial condition. Additionally, the use of search firms for permanent hires declined significantly. Kforce expects that future economic downturns will continue to have similar effects. The recent economic downturn resulted in lessened demand for Kforce s and Hall Kinion s services. There can be no assurance that demand will return to prior levels, and demand may continue to deteriorate.

In 2002 and a substantial portion of 2003 Kforce and Hall Kinion experienced a continuation of the economic slowdown in the IT industry that reflected a slowdown in the rate of innovation in this industry and a general reduction in demand for personnel with expertise in leading hardware, software or networking technologies. It reduced the demand for Kforce s and Hall Kinion s services. Reduction in demand for Kforce s and Hall Kinion s services had a material negative impact on its business, operating results and financial condition.

In the real estate services industry Hall Kinion serves, the demand for professional personnel is strongly influenced by the volume of mortgage financing, both for new units and re-financings. The volume is very sensitive to interest rates and other general economic conditions. Increases in interest rates could have a significant negative impact on business in this field.

Kforce s liquidity may be adversely impacted by covenants in its credit facility.

In 2002, Kforce amended the terms of its credit facility and increased its borrowing capacity to $100 million with a syndicate of four banks lead by Bank of America. Kforce had approximately $22.0 million outstanding under this credit facility as of December 31, 2003. If the amount borrowed under this credit facility exceeds certain amounts, then a number of financial covenants become applicable. As of December 31, 2003, Kforce had an additional $10.2 million of borrowing available without triggering these financial covenants. At no time during the existence of the credit facility has Kforce ever triggered such covenants. If Kforce were to trigger such financial covenants in the future and if Kforce does not comply with them, such a breach of the credit facility covenants could materially adversely affect Kforce s liquidity and financial condition. Such lack of compliance could result in, among other things, the acceleration of all amounts borrowed under the credit facility.

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

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

Kforce s business, operating results and financial condition could be negatively impacted if demand for its services in any new geographic markets it enters is less than anticipated, if new offices are not profitable in a timely manner or if Kforce fails to hire qualified employees.

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

- develop, recruit and maintain a base of qualified professionals within a new geographic market;
- initiate, develop and sustain corporate client relationships in each new vertical or geographic market;
- attract, hire, integrate and retain qualified sales and sales support employees; and
- accurately assess the demand of a new market.

The addition of offices and entry into new geographic markets may not occur on a timely basis or achieve anticipated financial results. The addition of new offices and entry into new vertical or geographic markets typically result in increases in operating expenses, primarily due to increased employee headcount. Expenses are incurred in advance of forecasted revenue, and there is typically a delay before Kforce s new employees reach full productivity. Additionally, demand for services in new markets that Kforce enters might also be less than anticipated. If Kforce is unable to enter new vertical or geographic markets in a cost-effective manner or if demand for its services in new markets does not meet or exceed its forecasts, Kforce s business, operating results and financial condition could be negatively impacted. In 2001, 2002 and March 2003, Kforce closed and consolidated offices to improve efficiency, and further closures or consolidation may occur depending on market and competitive conditions.

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

Kforce faces significant competition in the markets it serves, and there are limited barriers to entry by 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, other providers of staffing services, temporary personnel agencies, and search firms. A number of Kforce s competitors possess substantially greater resources than it does. From time to time Kforce has experienced significant pressure from its clients to reduce price levels. During these periods, Kforce may face increased competitive pricing pressures and may not be able to recruit the personnel necessary to fill its clients needs. Kforce also faces the risk that certain of its current and prospective clients will decide to provide similar services internally. There can be no assurance that Kforce will continue to successfully compete.

Kforce does not provide an offshore outsourcing solution.

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. Kforce does not currently provide an offshore program and there can be no assurance that Kforce will be able to compete successfully against the offshore solution providers or that Kforce will not lose significant market share and revenue.

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Kforce relies on short-term contracts with most of its clients.

Because long-term contracts are not a significant part of Kforce s business, future results cannot be reliably predicted by considering past trends or extrapolating past results.

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

Demand for Kforce s temporary healthcare staffing services is significantly affected by the general level of patient occupancy at its healthcare clients facilities. When a hospital s occupancy increases, temporary employees are often added before full-time employees are hired. As occupancy decreases, clients may reduce their use of temporary employees before undertaking layoffs of their regular employees. Kforce also may experience more competitive pricing pressure during periods of occupancy downturn. This reduction in occupancy could adversely affect the demand for Kforce s services and its profitability. There has been a significantly lessened demand for Kforce s healthcare staffing services in recent years. There can be no assurance that such demand will return to prior levels.

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

Kforce s business strategy includes increasing its market share and presence in the staffing industry through strategic acquisitions of companies that complement or enhance its business. Kforce has historically faced competition for acquisitions. In the future, this could limit its ability to grow by acquisitions or could raise the prices of acquisitions and make them less accretive or non-accretive. In addition, if Kforce is unable to secure necessary financing to consummate an acquisition, Kforce may be unable to complete desirable acquisitions.

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

Kforce continually evaluates opportunities to acquire staffing companies that complement or enhance its business and frequently have preliminary acquisition discussions with some of these companies.

These acquisitions involve numerous risks, including:

- potential loss of key employees or clients of acquired companies;
- difficulties integrating acquired personnel and distinct cultures into Kforce s 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 and integration expenses that could have a material adverse effect on Kforce s financial condition and results of operations. Any acquisition may ultimately have a negative impact on Kforce s business and financial condition.

Kforce depends on the proper functioning of its information systems.

Kforce is dependent on the proper functioning of its information systems in operating its business. Kforce s critical information systems used in its daily operations identify and match staffing resources and client assignments and perform billing and accounts receivable functions. Kforce s information systems are protected through physical and software safeguards and Kforce has backup remote processing capabilities. They are still vulnerable, however, to hurricanes, other storms, flood, fire, terrorist acts, earthquakes, power loss, telecommunications failures, physical or software break-ins, computer viruses and similar events. If Kforce s critical information systems fail or are otherwise unavailable, it would have to accomplish these functions

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manually, which could temporarily impact Kforce s ability to identify business opportunities quickly, to maintain billing and clinical records reliably, and to bill for services efficiently. In addition, Kforce depends on third party vendors for certain functions whose future performance and reliability it cannot warranty.

Kforce s success depends upon retaining the services of its management team.

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

Kforce faces significant employment liability risk.

Kforce employs and places people in the workplaces of other businesses. An inherent risk of such activity includes possible claims of errors and omissions, misuse of client proprietary information, misappropriation of funds, discrimination and harassment, employment of illegal aliens, theft of client property, other criminal activity, or torts and other claims. Kforce has policies and guidelines in place to reduce its exposure to such risks. However, failure of any employee or personnel to follow these policies and guidelines may result in negative publicity, injunctive relief, and the payment by Kforce of monetary damages or fines, or have other material adverse effects upon Kforce s business. Moreover, Kforce could be held responsible for the actions at a workplace of persons not under its immediate control. To reduce its exposure, Kforce maintains insurance covering general liability, workers compensation claims, errors and omissions, and employee theft. Due to the nature of its assignments, in particular, access to client information systems and confidential information, and the potential liability with respect thereto, Kforce might not be able to obtain insurance coverage in amounts adequate to cover any such liability on acceptable terms. In addition, Kforce faces various employment-related risks not covered by insurance, such as wage laws and employment tax responsibility.

Significant legal actions, particularly relating to Kforce s healthcare staffing services, could subject it to substantial uninsured liabilities.

In recent years, healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability or related legal theories. Many of these actions involve large claims and significant defense costs. In addition, Kforce may be subject to claims related to torts or crimes committed by its employees or temporary staffing personnel. In some instances, Kforce is required to indemnify clients against some or all of these risks. A failure of any of Kforce s employees or personnel to observe its policies and guidelines inten