FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FILER

MPS GROUP INC

CIK:**924646**| IRS No.: **593116655** | State of Incorp.:**FL** | Fiscal Year End: **1231**
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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2002

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ________ to ___________

Commission file number: 0-24484

MPS Group, Inc.
(Exact name of Registrant as specified in its charter)

Florida	59-3116655
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Independent Drive Jacksonville, Florida	32202
(Address of principal executive offices)	(Zip code)

(904) 360-2000
(Registrant's telephone number including area code)

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. April 30, 2002.

Common Stock, $0.01 par value Outstanding: 99,078,359 (No. of shares)

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements that are subject to certain risks, uncertainties or assumptions and may be affected by certain other factors, including but not limited to the specific factors discussed in Part I, Item 2 under 'Liquidity and Capital Resources,' 'Seasonality,' and 'Factors Which May Impact Future Results and Financial Condition.' In some cases, you can identify forward-looking statements by terminology such as 'will,' 'may,' 'should,' 'could,' 'expects,' 'plans,' 'indicates,' 'projects,' 'anticipates,' 'believes,' 'estimates,' 'appears,' 'predicts,' 'potential,' 'continues,' 'would,' or 'become' or the negative of these terms or other comparable terminology. In addition, except for historical facts, all information provided in Part I, Item 3, under 'Quantitative and Qualitative Disclosures About Market Risk' should be considered forward-looking statements. Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance or achievements of the Company may vary materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are based on beliefs and assumptions of the Company's management and on information currently available to such management. Forward looking statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events. Undue reliance should not be placed on such forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of performance.

<TABLE>

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Part I. Financial Information
Item 1. Financial Statements

MPS Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

<TABLE>
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(dollar amounts in thousands except per share amounts)	March 31, 2002 (unaudited)	December 31, 2001
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,160	$ 49,208
Accounts receivable, net	205,377	227,069
Prepaid expenses	6,964	6,444
Deferred income taxes	5,632	5,873
Other	5,026	12,102
Total current assets	257,159	300,696
Furniture, equipment, and leasehold improvements, net	44,257	48,742

Goodwill, net	499,296	1,165,961
Deferred income taxes, long-term	85,539	-
Other assets, net	29,022	28,223
Total assets	$ 915,273	$ 1,543,622
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 43,600	$ 49,207
Accrued payroll and related taxes	39,708	39,524
Income taxes payable	3,415	7,243
Total current liabilities	86,723	95,974
Credit facility	56,000	101,000
Deferred income taxes	-	22,214
Other	11,594	13,623
Total liabilities	154,317	232,811
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $.01 par value; 400,000,000 shares authorized; 98,638,205 and 98,306,783 shares issued and outstanding, respectively	986	983
Additional contributed capital	596,643	594,061
Retained earnings	178,319	730,085
Accumulated other comprehensive loss	(9,977)	(9,400)
Deferred stock compensation	(5,015)	(4,918)
Total stockholders' equity	760,956	1,310,811
Total liabilities and stockholders' equity	$ 915,273	$ 1,543,622

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MPS Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Income

<TABLE>
<CAPTION>

(dollar amounts in thousands except per share amounts)	Three months ended March 31, 2002 (unaudited)	2001 (unaudited)
<S>	<C>	<C>
Revenue	$ 296,453	$ 444,410
Cost of revenue	220,195	320,695
Gross profit	76,258	123,715
Operating expenses:		
General and administrative	66,547	94,506
Depreciation	4,998	5,368
Amortization of goodwill	-	9,599
Total operating expenses	71,545	109,473
Income from operations	4,713	14,242
Other expense, net	1,574	3,177
Income before provision for income taxes and cumulative effect of accounting change	3,139	11,065
Provision for income taxes	1,193	4,647
Income before cumulative effect of accounting change	1,946	6,418
Cumulative effect of accounting change (net of a $112,953 income tax benefit)	(553,712)	-
Net (loss) income	$ (551,766)	$ 6,418

	2002	2001
Basic (loss) income per common share:		
Income before cumulative effect of accounting change	$ 0.02	$ 0.07
Cumulative effect of accounting change	(5.62)	-
Basic net (loss) income per common share	$ (5.60)	$ 0.07
Average common shares outstanding, basic	98,475	97,173
Diluted (loss) income per common share:		
Income before cumulative effect of accounting change	$ 0.02	$ 0.07
Cumulative effect of accounting change	(5.49)	-
Diluted net (loss) income per common share	$ (5.47)	$ 0.07
Average common shares outstanding, diluted	100,799	97,359

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MPS Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

(dollar amounts in thousands except per share amounts)	Three months ended March 31, 2002	2001
	(unaudited)	(unaudited)
<S>	<C>	<C>
Cash flows from operating activities:		
Net (loss) income	$ (551,766)	$ 6,418
Adjustments to net (loss) income to net cash provided by by operating activities:		
Depreciation	4,998	5,368
Amortization of goodwill	-	9,599
Cumulative effect of accounting change	666,665	-
Deferred income taxes	(108,020)	3,412
Deferred compensation	400	117
Changes in certain assets and liabilities:		
Accounts receivable	20,059	3,052
Prepaid expenses and other assets	(520)	(3,745)
Accounts payable and accrued expenses	(7,209)	5,522
Accrued payroll and related taxes	269	1,521
Other, net	4,169	(925)
Net cash provided by operating activities	29,045	30,339
Cash flows from investing activities:		
Purchase of furniture, equipment and leasehold improvements, net of disposals	(513)	(4,766)
Purchase of businesses, including additional earn-outs on acquisitions, net of cash acquired	-	(1,504)
Net cash used in investing activities	(513)	(6,270)
Cash flows from financing activities:		
Proceeds from stock options exercised	2,088	24
Repayments on indebtedness	(45,359)	(23,030)
Net cash used in financing activities	(43,271)	(23,006)
Effect of exchange rate changes on cash and cash equivalents	(309)	(4,829)
Net decrease in cash and cash equivalents	(15,048)	(3,766)

Cash and cash equivalents, beginning of period	49,208	5,013
Cash and cash equivalents, end of period	$ 34,160	$ 1,247

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MPS Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)
(dollar amounts in thousands except for per share amounts)

1. Basis of Presentation.

The accompanying condensed consolidated financial statements are unaudited and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission ('SEC'). Accordingly, certain information and footnote disclosures usually found in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Form 10-K, as filed with the SEC on March 26, 2002.

Effective January 1, 2002, the Company completed its name change from Modis Professional Services, Inc. to MPS Group, Inc. The name change was approved by shareholders at a special meeting held in October 2001.

The accompanying condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position and results of operations for the interim periods presented. The results of operations for an interim period are not necessarily indicative of the results of operations for a full fiscal year.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ('FASB') issued Statements of Financial Accounting Standards ('SFAS') No. 142, 'Goodwill and Other Intangible Assets,' which is required to be adopted in fiscal 2002. SFAS No. 142 establishes accounting and reporting standards for goodwill and intangible assets resulting from business combinations. SFAS No. 142 includes provisions discontinuing the periodic amortization of and assessing the potential impairments of goodwill (and intangible assets deemed to have indefinite lives). As SFAS No. 142 replaces the measurement guidelines for goodwill impairment, goodwill not considered impaired under previous accounting literature may be considered impaired under SFAS No. 142. SFAS 142 also requires that the Company complete a two-step goodwill impairment test. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step is not required. SFAS 142 requires completion of this first step within the first six months of initial adoption and annually thereafter. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment loss. The second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. In the initial year of adoption, any impairment loss identified is presented as a change in accounting principle, net of applicable income tax benefit, and recorded as of the beginning of that year. In years subsequent to the initial year of adoption, any impairment loss recognized would be recorded as a charge to income from operations.

The Company has adopted SFAS 142 as of January 1, 2002. During the quarter ended March 31, 2002, the Company completed both steps of the transitional goodwill impairment tests which resulted in an impairment charge of $553,712, net of an income tax benefit of $112,953. Refer to Note 4, 'Goodwill' for further discussion of the impact of SFAS 142 on the Company's financial position and results of operations.

Additionally, in August and October 2001, the FASB issued SFAS No. 143, 'Accounting for Asset Retirement Obligations' and SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets,' respectively. SFAS No. 143 requires the fair value of a liability be recorded for an asset retirement obligation in the period in which it is incurred. SFAS No. 144 addresses the accounting and reporting for the impairment of long-lived assets, other than goodwill, and for long-lived assets to be disposed of. Further, SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale. The Company has adopted both SFAS No. 143 and No. 144 for 2002. The adoption of these statements' did not have an effect on the Company's consolidated results of operations and financial position.

2. Comprehensive Income

The Company discloses other comprehensive income in accordance with SFAS No. 130, 'Reporting Comprehensive Income'. Comprehensive income includes unrealized gains and losses on foreign currency translation adjustments and changes in the fair value of certain derivative financial instruments which qualify for hedge accounting. A summary of comprehensive income for the three months ended March 31, 2002 and 2001, is as follows:

<TABLE>
<CAPTION>

	Three months ended March 31, 2002	Three months ended March 31, 2001
<S>	<C>	<C>
Net (loss) income	$ (551,766)	$ 6,418
Unrealized loss on foreign currency translation adjustments (a)	(1,407)	(8,198)
Unrealized gain (loss) on derivative instruments, net of deferred income taxes	830	(620)
Total other comprehensive loss	(577)	(8,818)
Comprehensive loss	$ (552,343)	$ (2,400)

</TABLE>

(a) The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

3. Derivative Instruments and Hedging Activities

In 2001, the Company engaged in derivatives classified as cash flow hedges. Accordingly, changes in the fair value of these hedges are recorded in 'Accumulated other comprehensive loss' on the balance sheet. The Company formally documents all relations between hedging instruments and the hedged items, as well as its risk-management objectives and strategy for undertaking hedging transactions. The Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. The non-effective portions of these hedges are recorded as a component of current earnings.

The Company is currently a party to and in the future may enter into interest rate swap agreements in the normal course of business to manage and reduce the risk inherent in interest rate fluctuations. Interest rate swap agreements are considered hedges of specific borrowings, and differences received under the swap agreements are recognized as adjustments to interest expense. On February 12, 2001, the Company entered into an interest rate swap agreement to convert certain floating rate debt outstanding under the Company's credit facility into fixed rate debt by fixing the base rate, as defined by the credit facility. The actual interest rate on the credit facility is equal to this base rate plus an additional spread, determined by the Company's financial performance. This agreement had an initial notional amount of $110.4 million as of February 12, 2001, which amortizes to $55.7 million on January 2, 2003. On

March 2, 2001, the Company entered into an additional interest rate swap agreement to convert an additional $25.0 million into fixed rate debt. This additional agreement was settled in the fourth quarter of 2001. These agreements were approved by the Board of Directors. As of March 31, 2002, the Company had an outstanding interest rate swap agreement with a total notional amount of $55.7 million and an underlying rate of 5.185%.

Hedging interest rate exposure through the use of swaps is specifically intended to manage risk in keeping with management policy. The Company does not utilize derivatives for speculative purposes. These swaps are transaction-specific so that a specific debt instrument determines the amount, maturity and specifics of each swap.

4. Goodwill

The Company adopted SFAS 142, Goodwill and Other Intangibles, effective January 1, 2002. In connection with the adoption of SFAS 142, the Company discontinued amortizing goodwill. The changes in the carrying amount of goodwill for the three months ended March 31, 2002, are as follows:

<TABLE>
<CAPTION>

	Professional Services	e-Business Solutions	Information Technology Services	Total
<S>	<C>	<C>	<C>	<C>
Balance as of December 31, 2001	$ 312,952	$ 260,972	$ 592,037	$1,165,961
Impairment losses	(87,969)	(240,247)	(338,449)	(666,665)
Balance as of March 31, 2002	$ 224,983	$ 20,725	$ 253,588	$ 499,296

</TABLE>

In accordance with SFAS 142, the Company performed transitional goodwill impairment tests at the reporting unit level as defined in SFAS 142. Reporting units are equal to or one level below reportable segments. The Company engaged independent valuation consultants to assist with the transitional goodwill impairment tests.

The fair value of each of the reporting units was calculated on an enterprise value basis using the following approaches: (i) market multiple approach and (ii) discounted cash flow approach. Under the market multiple approach, market ratios and performance fundamentals relating to similar public companies' stock prices or enterprise values were applied to the reporting units to determine their enterprise value. Under the discounted cash flow ("DCF") approach, the indicated enterprise value was determined using the present value of the projected future cash flows to be generated considering appropriate discount rates. The discount rates used in the calculation reflected all associated risks of realizing the projected future cash flows.

The fair value conclusion of the reporting units reflects an equally blended value of the market multiple approach and the DCF approach discussed above. As a result of performing steps 1 and 2 of the goodwill impairment test, a loss of $553,712, net of an income tax benefit of $112,953, was recognized and recorded as a cumulative effect of accounting change in the accompanying Condensed Consolidated Statements of Income.

The following table provides comparative disclosure of adjusted net income excluding goodwill amortization expense, net of income taxes, for the periods presented:

<TABLE>
<CAPTION>

	Three months ended March 31, 2002	2001
<S>	<C>	<C>
Income before cumulative effect of accounting change, as reported	$ 1,946	$ 6,418
Goodwill amortization, net of income taxes	-	6,748
Income before cumulative effect of accounting change, as adjusted	$ 1,946	$ 13,166
Cumulative effect of accounting change, net of income taxes	(553,712)	-
Net (loss) income, as adjusted	$ (551,766)	$ 13,166

Basic (loss) income per common share:

Income before cumulative effect of accounting change, as reported	$ 0.02	$ 0.07
Goodwill amortization, net of income taxes	-	0.07
Income before cumulative effect of accounting change, as adjusted	$ 0.02	$ 0.14
Cumulative effect of accounting change, net of income taxes	(5.62)	-
Basic net (loss) income per common share	$ (5.60)	$ 0.14
Diluted (loss) income per common share:		
Income before cumulative effect of accounting change, as reported	$ 0.02	$ 0.07
Goodwill amortization, net of income taxes	-	0.07
Income before cumulative effect of accounting change, as adjusted	$ 0.02	$ 0.14
Cumulative effect of accounting change, net of income taxes	(5.49)	-
Diluted net (loss) income per common share	$ (5.47)	$ 0.14

</TABLE>

5. Net Income per Common Share

The calculation of basic net (loss) income per common share and diluted net (loss) income per common share is presented below:

<TABLE>
<CAPTION>

	Three months ended March 31,	
	2002	2001
<S>	<C>	<C>
Basic (loss) income per common share computation:		
Income before cumulative effect of accounting change	$ 1,946	$ 6,418
Cumulative effect of accounting change, net of income taxes	(553,712)	-
Net (loss) income	$ (551,766)	$ 6,418
Basic average common shares outstanding	98,475	97,173
Basic (loss) income per common share:		
Income before cumulative effect of accounting change	$ 0.02	$ 0.07
Cumulative effect of accounting change, net of income taxes	(5.62)	-
Basic net (loss) income per common share	$ (5.60)	$ 0.07
Diluted (loss) income per common share computation:		
Income before cumulative effect of accounting change	$ 1,946	$ 6,418
Cumulative effect of accounting change, net of income taxes	(553,712)	-
Net (loss) income	$ (551,766)	$ 6,418
Basic average common shares outstanding	98,475	97,173
Incremental shares from assumed exercise of stock options	2,324	186
Diluted average common shares outstanding	100,799	97,359
Diluted (loss) income per common share:		
Income before cumulative effect of accounting change	$ 0.02	$ 0.07
Cumulative effect of accounting change, net of income taxes	(5.49)	-
Diluted net (loss) income per common share	$ (5.47)	$ 0.07

</TABLE>

Options to purchase 2,399,799 shares of common stock that were outstanding as of March 31, 2002, were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common shares during the three months ended March 31, 2002.

6. Commitments and Contingencies

Litigation

The Company is a party to a number of lawsuits and claims arising out of the ordinary conduct of its business. In the opinion of management, based on the advice of in-house and external legal counsel, the lawsuits and claims pending are not likely to have a material adverse effect on the Company, its financial position, its results of operations, or its cash flows.

7. Segment Reporting

The Company discloses segment information in accordance with SFAS No. 131, 'Disclosure About Segments of an Enterprise and Related Information,' which requires companies to report selected segment information on a quarterly basis and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

The Company has three reportable segments: information technology (IT) services, e-Business solutions, and professional services. The Company's reportable segments are strategic divisions that offer different services and

are managed separately as each division requires different resources and marketing strategies. The IT services division, operating under the brand Modis, offers value-added solutions such as IT project support and staffing, recruitment of full-time positions, project-based solutions, supplier management solutions, and on-site recruiting support. The e-Business solutions division, operating under the brand Idea Integration, provides e-Business strategy consulting, design and branding, application development, and integration. The professional services division provides expertise in a wide variety of disciplines including accounting and finance, law, engineering and technical, career management, executive search, and human resource consulting. For the three months ended March 31, 2001, results from the scientific operating unit of which the Company sold the assets of in December 2001 are included therein. The Company evaluates segment performance based on revenues, gross profit, and income before provision for income taxes. The Company does not allocate income taxes or unusual items to the segments. The following table summarizes segment and geographic information:
<TABLE>
<CAPTION>

	Three Months Ended	
	March 31, 2002	March 31, 2001
<s>	<c>	<c>
Revenue		
IT services	$ 150,747	$ 219,509
e-Business solutions	22,798	54,717
Professional services	122,908	170,184
Total revenue	$ 296,453	$ 444,410
Gross profit		
IT services	$ 30,935	$ 48,661
e-Business solutions	7,350	18,103
Professional services	37,973	56,951
Total gross profit	$ 76,258	$ 123,715
Income before provision for income taxes and cumulative effect of accounting change		
IT services	$ 691	$ 6,573
e-Business solutions	(2,223)	(7,409)
Professional services	6,245	15,078
	4,713	14,242
Corporate interest and other income	(1,574)	(3,177)
Total income before provision for income taxes and cumulative effect of accounting change	$ 3,139	$ 11,065
Geographic Areas		
Revenues		
United States	$ 201,667	$ 331,625
U.K.	91,537	109,769

Other	3,249	3,016
Total	$ 296,453	$ 444,410

	March 31, 2002	December 31, 2001
Assets		
IT services	$ 460,273	$ 781,845
e-Business solutions	99,663	319,284
Professional services	339,224	426,547
	899,160	1,527,676
Corporate	16,113	15,946
Total assets	$ 915,273	$ 1,543,622
Geographic Areas		
Identifiable Assets		
United States	$ 662,495	$ 1,133,372
U.K.	245,340	399,259
Other	7,438	10,991
Total	$ 915,273	$ 1,543,622

</TABLE>

8. Income Taxes

The Company is subject to periodic review by federal, state, and local taxing authorities in the ordinary course of business. During the second quarter of 2001, the Company was notified by the Internal Revenue Service that certain prior year income tax returns will be examined. As part of this examination, the tax benefit associated with an investment in a subsidiary that the Company recognized in 2000 will also be reviewed. The impact or adjustment, if any, as a result of this examination cannot be reasonably estimated at this time.

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

MPS Group, Inc. ('MPS' or the 'Company') (NYSE:MPS) helps its client companies thrive by delivering a unique mix of consulting, solutions, and staffing services in the disciplines of information technology (IT), finance and accounting, legal, e-Business, human capital automation, engineering, executive search, and work force management. MPS consists of three divisions: the IT services division, operating under the brand Modis; the e-Business solutions division, operating under the brand Idea Integration; and the professional services division.

Effective January 1, 2002, the Company completed its name change from Modis Professional Services, Inc. to MPS Group, Inc. The name change was approved by shareholders at a special meeting held in October 2001.

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ('SFAS') No. 142, 'Goodwill and Other Intangibles.' Comparability of results prior to 2002 is affected by the Company's adoption of SFAS 142 as SFAS 142 requires the discontinuance of goodwill amortization.

The following detailed analysis of operations should be read in conjunction with the 2001 Consolidated Financial Statements and related notes included in the Company's Form 10-K filed March 26, 2002.

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Revenue. Revenue decreased $147.9 million, or 33.3%, to $296.5 million in the three months ended March 31, 2002, from $444.4 million in the year earlier period. The decrease was attributable primarily to diminished demand for services provided by the Company's divisions.

For the IT services division, which accounted for 50.9% and 49.4% of the Company's total revenue for the three months ended March 31, 2002 and 2001, respectively, the Company's customers continued to limit spending on IT initiatives due to uncertainties relating to the economy. Revenue in the IT services division decreased $68.8 million, or 31.3%, to $150.7 million in 2002, from $219.5 million in the year earlier period.

For the e-Business solutions division, weak demand for e-Business consulting services was intensified by the uncertainties relating to the economy. Revenue in the division decreased $31.9 million, or 58.8%, to $22.8 million in the three months ended March 31, 2002, from $54.7 million in the year earlier period.

Revenue in the professional services division decreased $47.3 million, or 27.8%, to $122.9 million in the three months ended March 31, 2002, from $170.2 million in the year earlier period. Included in revenue in the year earlier period is $6.3 million of revenue from the division's scientific operating unit, which was sold in December 2001. Excluding the results of the scientific unit in the year earlier period, revenue in the professional services division decreased 25.0% in the three months ended March 31, 2002, from the year earlier period. This decrease in the division's revenue was primarily attributable to the diminished demand for knowledge worker resources in the services provided by the division, primarily in the United States. Excluding the results of the scientific unit in the year earlier period, revenue generated in the United Kingdom decreased 15.5% year over year, while revenue generated in the United States decreased 29.4%. Excluding the results of the scientific unit, the professional services division operates primarily through four operating units consisting of the accounting and finance, legal, engineering/technical, and career management and consulting, which contributed 43.3%, 11.1%, 34.7%, and 10.9%, respectively, of the division's revenue by group during the three months ended March 31, 2002, as compared to 42.2%, 12.8%, 36.2%, and 8.8%, respectively, during the year earlier period.

Gross Profit. Gross profit decreased $47.4 million or 38.3% to $76.3 million in the three months ended March 31, 2002, from $123.7 million in the year earlier period. Gross margin decreased to 25.7% in the three months ended March 31, 2002, from 27.8% in the year earlier period.

The gross margin in the IT services division decreased to 20.5% in the three months ended March 31, 2002, from 22.2% in the year earlier period. The decrease in gross margin in the IT services division is primarily attributable to a decrease in bill rates and, to a lesser extent, the lower level of direct hire and permanent placement fees, which generate a higher margin. As a percentage of revenue, the division's direct hire and permanent placement fees decreased to 0.4% of revenue in the three months ended March 31, 2002, from 1.0% of revenue in the year earlier period.

The gross margin in the e-Business solutions division decreased to 32.2% in the three months ended March 31, 2002, from 33.1% in the year earlier period. Consultant utilization within the e-Business solutions division decreased as a result of (1) the division's business model utilizing salaried consultants and (2) the weak demand for e-Business consulting services. The Company continued to address consultant utilization within the division through the downsizing of its consultant base.

The gross margin in the professional services division decreased to 30.9% in the three months ended March 30, 2002, from 33.5% in the year earlier period. The decrease in gross margin in the professional services division is primarily attributable to a lower level of direct hire and permanent placement fees in the three months ended March 31, 2002 as compared to 2001. Excluding the results of the scientific unit, as a percentage of revenue, the division's direct hire and permanent placement fees decreased to 5.4% of revenue in the three months ended March 31, 2002, from 7.4% in the year earlier period.

Operating expenses. Operating expenses decreased $38.0 million or 34.7% to $71.5 million in the three months ended March 31, 2002, from $109.5 million in the year earlier period. During the year earlier period, operating expenses included

$9.6 million of goodwill amortization. The Company's general and administrative ('G&A') expenses decreased $28.0 million or 29.6% to $66.5 million in the three months ended March 31, 2002, from $94.5 million in the year earlier period.

The IT services division's G&A expenses decreased $6.5 million, or 18.9%, to $27.9 million in the three months ended March 31, 2002, from $34.4 million in the year earlier period. As a percentage of revenue, the division's G&A expenses increased to 18.5% in the three months ended March 31, 2002, from 15.7% in the year earlier period. The decrease in the IT services division's G&A expenses is associated with the decrease in revenue for the three months ended March 31, 2002, and cost reduction initiatives implemented within the division throughout 2001 and into the first quarter of 2002.

The e-Business solutions division's G&A expenses decreased $14.3 million, or 63.3%, to $8.3 million in the three months ended March 31, 2002, from $22.6 million in the year earlier period. As a percentage of revenue, the division's G&A expenses decreased to 36.6% in the three months ended March 31, 2002, from 41.3% in the year earlier period. The decrease in the e-Business solutions division's G&A expenses was related to reductions in its work force that started in early 2001 and has continued through the first quarter of 2002.

The professional services division's G&A expenses decreased $7.2 million, or 19.2%, to $30.3 million in the three months ended March 31, 2002, from $37.5 million in the year earlier period. Excluding the results of the scientific unit in the year earlier period, the professional services G&A expenses decreased 16.3% in the three months ended March 31, 2002, from the year earlier period. As a percentage of revenue, the division's G&A expenses increased to 24.6% in the three months ended March 31, 2002, from 22.0% in the year earlier period. The decrease in the professional services division's G&A expenses is associated with the decrease in revenue for the three months ended March 31, 2002, and cost reduction initiatives implemented within the division beginning in the spring of 2001 and into the first quarter of 2002.

Income from operations. Income from operations decreased $9.5 million, or 66.9%, to $4.7 million in the three months ended March 31, 2002, from $14.2 million in the year earlier period. Excluding goodwill amortization in the year earlier period, income from operations decreased 80.3% in the three months ended March 31, 2002, from the year earlier period. Income from operations for the IT services division decreased $5.9 million, or 89.4 %, to $0.7 million in the three months ended March 31, 2002, from $6.6 million in the year earlier period. Excluding goodwill amortization in the year earlier period, income from operations for the IT services division decreased 93.9% in the three months ended March 31, 2002, from the year earlier period. Loss from operations for the e-Business solutions division decreased $5.2 million, to a $2.2 million loss in the three months ended March 31, 2002, from a $7.4 million loss in the year earlier period. Excluding goodwill amortization in the year earlier period, loss from operations for the e-Business solutions division decreased to a $2.2 million loss in the three months ended March 31, 2002, from a $5.5 million loss in the year earlier period. Income from operations for the professional services division decreased $8.9 million, or 58.9%, to $6.2 million in the three months ended March 31, 2002, from $15.1 million in the year earlier period. Excluding goodwill amortization in the year earlier period, income from operations for the professional services division decreased 65.4% in the three months ended March 31, 2002, from the year earlier period. For the Company as a whole, income from operations as a percentage of revenue decreased to 1.6% in the three months ended March 31, 2002, from 3.2% in the year earlier period. Excluding goodwill amortization in the year earlier period, for the Company as a whole, income from operations as a percentage of revenue decreased to 1.6% in the three months ended March 31, 2002, from 5.4% in the year earlier period.

Other expense, net. Other expense, net consists primarily of interest expense related to borrowings under the Company's credit facility and notes issued in connection with acquisitions, net of interest income related to investment income from (1) certain investments owned by the Company and (2) cash on hand. Interest expense decreased $1.8 million, or 48.6%, to $1.9 million in the three months ended March 31, 2002, from $3.7 million in the year earlier period. The decrease in interest expense is related to the lower level of borrowings under the Company's credit facility during the first quarter of 2002. Interest expense was offset by $0.3 million of interest and other income in the three months ended March 31, 2002, as compared to $0.5 million in the year earlier period.

Income taxes. The Company's effective tax rate decreased to 38.0% in the three months ended March 31, 2002, as compared to 42.0% in the year earlier period, due to the discontinuance of goodwill amortization required by SFAS 142. In the year earlier period, non-deductible goodwill amortization on certain acquisitions had an increased effect on the Company's effective tax rate.

Income before cumulative effect of accounting change. As a result of the foregoing, income before cumulative effect of accounting change decreased $4.5 million, or 70.3%, to $1.9 million in the three months ended March 31, 2002, from $6.4 million in the year earlier period. Excluding goodwill amortization in the year earlier period, income before cumulative effect of accounting change decreased 85.6% in the three months ended March 31, 2002, from the year earlier period. Income before cumulative effect of accounting change as a percentage of revenue decreased to 0.7% in the three months ended March 31, 2002, from 1.4% in the year earlier period. Excluding goodwill amortization in the year earlier period, income before cumulative effect of accounting change as a percentage of revenue decreased to 0.7% in the three months ended March 31, 2002, from 3.0% in the year earlier period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements have principally been related to the acquisition of businesses, working capital needs, and capital expenditures. These requirements have been met through a combination of bank debt and internally generated funds. The Company's operating cash flows and working capital requirements are affected significantly by the timing of payroll and by the receipt of payment from the customer. Generally, the Company pays its consultants weekly or semi-monthly, and receives payments from customers within 30 to 90 days from the date of invoice.

The Company had working capital of $170.4 million and $204.7 million as of March 31, 2002 and December 31, 2001, respectively. The Company had cash and cash equivalents of $34.2 million and $49.2 million as of March 31, 2002 and December 31, 2001, respectively.

For the three months ended March 31, 2002 and 2001, the Company generated $29.0 million and $30.3 million of cash flow from operations, respectively.

For the three months ended March 31, 2002, the Company used $0.5 million of cash for investing activities. For the three months ended March 31, 2001, the Company used $6.3 million of cash for investing activities, of which $4.8 million were used for capital expenditures and $1.5 million for earn-out payments.

For the three months ended March 31, 2002 and 2001, the Company used $43.3 million and $23.0 million of cash for financing activities, respectively. This amount primarily represented repayments on the Company's credit facility and on notes issued in connection with the acquisition of certain companies. These repayments were mainly funded from cash flow from operations.

On November 4, 1999, the Company's Board of Directors authorized the repurchase of up to $65.0 million of the Company's common stock. As of March 31, 2002, no shares have been repurchased under this authorization.

The Company anticipates that capital expenditures for furniture and equipment, including improvements to its management information and operating systems during the remainder of 2002, will be approximately $7.0 million.

The Company believes that funds provided by operations, available borrowings under the credit facility, and current amounts of cash will be sufficient to meet its presently anticipated needs for working capital, capital expenditures and acquisitions for at least the next 12 months.

Indebtedness of the Company

The Company has a $350 million revolving credit facility which is syndicated to a group of 13 banks with Bank of America as the principal agent. This facility expires on October 27, 2003. The credit facility contains certain financial and non-financial covenants relating to the Company's operations, including maintaining certain financial ratios. Repayment of the credit facility is guaranteed by the material subsidiaries of the Company. In addition, approval of an individual acquisition is required by the majority of the lenders when cash consideration for the acquisition exceeds 10% of consolidated stockholders' equity of the Company.

As of April 30, 2002, the Company had a balance of approximately $56.0 million outstanding under the credit facility. The Company also had outstanding letters of credit in the amount of $2.0 million, reducing the amount of funds available under the credit facility to approximately $292.0 million as of April 30, 2002.

On February 12, 2001, the Company entered into an interest rate swap agreement to convert certain floating rate debt outstanding under the Company's credit facility into fixed rate debt by fixing the base rate, as defined by the credit facility. The actual interest rate on the credit facility is equal to this base rate plus an additional spread, determined by the Company's financial performance. This agreement had an initial notional amount of $110.4 million as of February 12, 2001, which amortizes to $55.7 million on January 2, 2003. On March 2, 2001, the Company entered into an additional interest rate swap agreement to convert an additional $25.0 million into fixed rate debt. This additional agreement was settled in the fourth quarter of 2001. These agreements were approved by the Board of Directors. As of March 31, 2002, the Company had an outstanding interest rate swap agreement with a total notional amount of $55.7 million and an underlying rate of 5.185%.

SEASONALITY

The Company's quarterly operating results are affected primarily by the number of billing days in the quarter and the seasonality of its customers' businesses. Demand for professional services is typically lower during the first quarter until customers' operating budgets are finalized and the profitability of the Company's consultants is generally lower in the fourth quarter due to fewer billing days because of the higher number of holidays and vacation days.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

The following assessment of the Company's market risks does not include uncertainties that are either nonfinancial or nonquantifiable, such as political, economic, tax and credit risks.

Interest Rates. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations under its credit facility and to the Company's investments.

The Company's investment portfolio consists of cash and cash equivalents including deposits in banks, government securities, money market funds, and short-term investments with maturities, when acquired, of 90 days or less. The Company is adverse to principal loss and seeks to preserve its invested funds by placing these funds with high credit quality issuers. The Company constantly evaluates its invested funds to respond appropriately to a reduction in the credit rating of any investment issuer or guarantor.

The Company's debt obligations totaled $56.4 million as of March 31, 2002, and the Company had $292.0 million available under its credit facility.

On February 12, 2001, the Company entered into an interest rate swap agreement to convert certain floating rate debt outstanding under the Company's credit facility into fixed rate debt by fixing the base rate, as defined by the credit facility. The actual interest rate on the credit facility is equal to this base rate plus an additional spread, determined by the Company's financial performance. This agreement had an initial notional amount of $110.4 million as of February 12, 2001, which amortizes to $55.7 million on January 2, 2003. On March 2, 2001, the Company entered into an additional interest rate swap agreement to convert an additional $25.0 million into fixed rate debt. This additional agreement was settled in the fourth quarter of 2001. These agreements were approved by the Board of Directors. As of March 31, 2002, the Company had an outstanding interest rate swap agreement with a total notional amount of $55.7 million and an underlying rate of 5.185%. Hedging interest rate exposure through the use of swaps are specifically contemplated to manage risk in keeping with management policy. The Company does not utilize derivatives for speculative purposes. These swaps are transaction-specific so that a specific debt instrument determines the amount, maturity and specifics of each swap.

The Company prepared sensitivity analyses of its borrowings under the credit facility and its financial instruments to determine the impact of hypothetical changes in interest rates on the Company's results of operations and cash flows, and the fair value of its financial instruments. The interest-rate analysis assumed a 50 basis point adverse change in interest rates on all borrowings under the credit facility and financial instruments, representing approximately 10% of the Company's weighted average borrowing rate. However, the interest-rate analysis did not consider the effects of the reduced level of economic activity that could exist in such an environment. A 50 basis point adverse move in interest rates on the Company's outstanding borrowings under the credit facility would have an immaterial impact on the Company's results of operations and cash flows. However, a 50 basis point adverse move in interest rates would decrease the fair value of the Company's interest rate swap agreement by approximately $0.2 million.

Foreign currency exchange rates. Foreign currency exchange rate changes impact translations of foreign denominated assets and liabilities into U.S. dollars and future earnings and cash flows from transactions denominated in different currencies. The Company generated approximately 32% of its consolidated revenues for the three months ended March 31, 2002 from international operations, approximately 97% of which were from the United Kingdom. The exchange rate has decreased approximately 1% in the three months ended March 31, 2002, from 1.45 at December 31, 2001 to 1.43 at March 31, 2002. The Company prepared sensitivity analyses to determine the adverse impact of hypothetical changes in the British pound sterling, relative to the U.S. Dollar, on the Company's results of operations and cash flows. However, the analysis did not include the potential impact on sales levels resulting from a change in the British pound sterling. An additional 10% adverse movement in the exchange rate would have had an immaterial impact on the Company's cash flows and financial position for 2001. While fluctuations in the British pound sterling have not historically had a material impact on the Company's results of operations, the lower level of earnings resulting from a decrease in demand for the services provided by the Company's domestic operations have increased the impact of exchange rate fluctuations. As of March 31, 2002, the Company did not hold or has not previously entered into any foreign currency derivative instruments.

FACTORS WHICH MAY IMPACT FUTURE RESULTS AND FINANCIAL CONDITION

Effect of Fluctuations in the General Economy

Demand for the Company's business services is significantly affected by the general level of economic activity in the markets served by the Company. During periods of slowing economic activity, companies may reduce the use of outside consultants and staff augmentation services prior to undertaking layoffs of full-time employees. Also during such periods, companies may elect to defer installation of new IT systems and platforms (such as Enterprise Resource Planning systems) or upgrades to existing systems and platforms. As a result, any significant or continued economic downturn could have a material adverse effect on the Company's results of operations or financial condition.

The Company may also be adversely affected by consolidations through mergers and otherwise of major customers or between major customers with non-customers. These consolidations as well as corporate downsizings may result in redundant functions or services and a resulting reduction in demand by such customers for the Company's services. Also, spending for outsourced business services may be put on hold until the consolidations are completed.

Competition

The Company's industry is intensely competitive and highly fragmented, with few barriers to entry by potential competitors. The Company faces significant competition in the markets that it serves and will face significant competition in any geographic market that it may enter. In each market in which the Company operates, it competes for both clients and qualified professionals with other firms offering similar services. Competition creates an aggressive pricing environment and higher wage costs, which puts pressure on gross margins.

Ability to Recruit and Retain Professional Employees

The Company depends on its ability to recruit and retain employees who possess the skills, experience and/or professional certifications necessary to meet the requirements of the Company's clients. Competition for individuals possessing the requisite criteria is intense, particularly in certain specialized IT and professional skill areas. The Company often competes with its own clients in attracting and retaining qualified personnel. There can be no assurance that qualified personnel will be available and recruited in sufficient numbers on economic terms acceptable to the Company.

Ability to Continue Acquisition Strategy; Ability to Integrate Acquired Operations

Historically, the Company has included acquisitions are a part of the Company's overall growth strategy. Although the Company continues to seek acquisition opportunities, there can be no assurance that the Company will be able to negotiate acquisitions on economic terms acceptable to the Company or that the Company will be able to successfully identify acquisition candidates and integrate all acquired operations into the Company.

Possible Changes in Governmental Regulations

From time to time, legislation is proposed in the United States Congress, state legislative bodies and by foreign governments that would have the effect of requiring employers to provide the same or similar employee benefits to consultants and other temporary personnel as those provided to full-time employees. The enactment of such legislation would eliminate one of the key economic reasons for outsourcing certain human resources and could significantly adversely impact the Company's staff augmentation business. In addition, the Company's costs could increase as a result of future laws or regulations that address insurance, benefits or other employment-related matters. There can be no assurance that the Company could successfully pass any such increased costs to its clients.

Financial Covenants

The Company's credit facility requires that specified financial ratios be maintained. The Company's ability to meet these financial ratios can be affected by events beyond its control. Failure to meet those financial ratios could allow its lenders to terminate the credit facility and to declare all amounts outstanding under those facilities to be immediately due and payable. Further, the Company may not be able to obtain a replacement credit facility on terms and conditions or at interest rates as favorable as those in current agreements.

Income Tax Audits

The Company is subject to periodic review by federal, state, and local taxing authorities in the ordinary course of business. During 2001, the Company was notified by the Internal Revenue Service that certain prior year income tax returns will be examined. As part of this examination, the net tax benefit associated with an investment in a subsidiary that the Company recognized in 2000 of $86.3 million is also being reviewed. There can be no assurance that the Internal Revenue Service will not disallow any or all of the tax benefit. A disallowance would result in the Company having to repay any or all of the tax benefit to the Internal Revenue Service which may affect the Company's financial condition and financial covenants.

Part II. Other Information

Item 1. Legal Proceedings

No disclosure required.

Item 2. Changes in Securities and Use of Proceeds

No disclosure required.

Item 3. Defaults Upon Senior Securities

No disclosure required.

Item 4. Submission of Matters to a Vote of Security Holders

No disclosure required.

Item 5. Other Information

No disclosure required.

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

3.1 Amended and Restated Articles of Incorporation.

B. Reports on Form 8-K

No disclosure required.

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Timothy D. Payne Timothy D. Payne	President, Chief Executive Officer and Director	May 14, 2002
/s/ Robert P. Crouch Robert P. Crouch	Senior Vice President, Chief Financial Officer, Treasurer, and Chief Accounting Officer	May 14, 2002

AMENDED AND RESTATED
ARTICLES OF INCORPORATION

MPS GROUP, INC.

ARTICLE I
NAME

The name of this Corporation is MPS Group, Inc.

ARTICLE II
PRINCIPAL OFFICE

The principal office and mailing address of this Corporation is One Independent Drive, Jacksonville, Florida 32202.

ARTICLE III
CAPITAL STOCK

This Corporation is authorized to issue four hundred million (400,000,000) shares of Common Stock with a par value of one cent ($.01) per share, and ten million (10,000,000) shares of Preferred Stock with a par value of one cent ($.01) per share. The Board of Directors shall have the authority to establish series of the Preferred Stock and, by filing the appropriate Articles of Amendment with the Department of State of the State of Florida, to establish the designation of each series and the variations in rights, preferences, and limitations for each series.

ARTICLE IV
INDEMNIFICATION

Section 1. Limitation of Liability

To the full extent that the Florida Business Corporation Act, as it exists on the date hereof or may hereafter be amended, permits the limitation or elimination of the liability of directors or officers, a director or officer of this Corporation shall not be liable to this Corporation or its shareholders for any monetary damages.

Section 2. Indemnification

1. This Corporation shall indemnify a director or officer of this Corporation who is or was a party to any proceeding by reason on has been made that indemnification is not permissible, this Corporation shall make advances and reimbursements for expenses incurred by a director or officer in a

proceeding upon receipt of an undertaking from him or her to repay the same if it is ultimately determined that he or she is not entitled to indemnification. Such undertaking shall be an unlimited, unsecured general obligation of the director or officer and shall be accepted without reference to his or her ability to make repayment. The Board of Directors is hereby empowered, by majority vote of a quorum of disinterested directors, to contract in advance to indemnify and advance the expenses of any director or officer.

2. The Board of Directors is hereby empowered, by majority vote of a quorum of disinterested directors, to cause this Corporation to indemnify or contract in advance to indemnify any person not specified in Article IV, Section 2(a) who was or is a party to any proceeding, by reason of the fact that he or she is or was an employee or agent of this Corporation, or is or was serving at the request of this Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other profit or non-profit enterprise, to the same extent as if such person were specified as one to whom indemnification is granted in Article IV, Section 2(a).

Section 3. Insurance

This Corporation may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Article and may also procure insurance, in such amounts as the Board of Directors may determine, on behalf of any person who is or was a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability asserted against or incurred by such person in any such capacity or arising from his or her status as such, whether or not this Corporation would have power to indemnify him or her against such liability under the provisions of this Article IV.

Section 4. Change in Board of Directors

In the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification is claimed, any determination as to indemnification and advancement of expenses with respect to any claim for indemnification made pursuant to Article IV, Section 2(a) shall be made by special legal counsel agreed upon by the Board of Directors and the proposed indemnitee. If the Board of Directors and the proposed indemnitee are unable to agree upon such special legal counsel, the Board of Directors and the proposed indemnitee each shall select a nominee, and the nominees shall select such special legal counsel.

Section 5. Application

The provisions of this Article IV shall be applicable to all actions, claims, suits or proceedings commenced after the adoption hereof, whether arising from any action taken or failure to act before or after such adoption. No amendment, modification or repeal of this Article shall diminish the rights provided hereby or diminish the right to indemnification with respect to any claim, issue or matter in any then pending or subsequent proceeding that is based in any material respect on any alleged action or failure to act prior to such amendment, modification or repeal.

Section 6. Covered Persons

Reference herein to directors, officers, employees or agents shall include former directors, officers, employees and agents and their respective heirs, executors and administrators.

Section 7. Amendment

Notwithstanding any other provisions of the Articles of Incorporation or the Bylaws of this Corporation (and notwithstanding the fact that some lesser percentage may be specified by law, the Articles of Incorporation or the Bylaws of this Corporation), the provisions of this Article may be altered, amended or repealed only by the affirmative vote of 75% or more of the voting power of all the then outstanding shares of this Corporation's capital stock entitled to vote on the election of directors, voting together as a single class.

ARTICLE V
AMENDMENTS

Except as otherwise provided herein, these Articles of Incorporation may be amended in the manner provided by law. Both the shareholders and the Board of Directors may repeal, amend or adopt Bylaws for the corporation, pursuant to these Articles, except that the shareholders may prescribe in any Bylaw made by them that such Bylaw shall not be altered, repealed or amended by the Board of Directors.