SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(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, 1997

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 0-26058

ROMAC INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| FLORIDA | 59-3264661 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 120 West Hyde Park Place<br>Suite 150<br>Tampa, Florida | 33606 |
| (Address of principal executive offices) | (zip-code) |

Registrant's telephone number, including area code: (813) 251-1700

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of April 30, 1997.

12,036,904 shares of $.01 par value Common Stock

PART I --- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENT

ROMAC INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)

| | March 31 1997 (unaudited) | December 31 1996 |
|---|---|---|
| Assets: | | |
| Current Assets: | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $31,017 | $39,555 |
| Short-term investments | 914 | 880 |
| Trade receivables, net of allowance for doubtful accounts of $597 and $617 respectively | 20,954 | 17,061 |
| Notes receivable from franchisees, current | 277 | 193 |
| Receivables from related parties, current | 494 | 100 |
| Deferred tax asset | 243 | 243 |
| Prepaid expenses and other current assets | 1,345 | 1,214 |
| Total current assets | 55,244 | 59,246 |
| Note receivable from franchisees, less current portion | 54 | 75 |
| Receivables from related parties, less current portion | 813 | 862 |
| Deferred tax asset | 209 | 209 |
| Furniture and equipment, net | 5,642 | 5,346 |
| Goodwill, net of accumulated amortization of $1,436 and $1,108, respectively | 19,675 | 10,915 |
| Other assets, net | 2,046 | 906 |
| Total assets | $83,683 | $77,559 |
| **Liabilities and Shareholders' Equity:** | | |
| Current Liabilities: | | |
| Accounts payable and other accrued liabilities | $ 1,465 | $ 1,723 |
| Accrued payroll costs | 4,748 | 2,976 |
| Current portion of payables to related parties | 40 | 23 |
| Income taxes payable | 1,239 | 304 |
| Total current liabilities | 7,492 | 5,026 |
| Other long-term liabilities, less current portion | 1,618 | 1,249 |
| Total liabilities | 9,110 | 6,275 |
| Commitment and contingencies | -- | - |
| Shareholders' Equity: | | |
| Preferred stock, par value $.01; 15,000 shares authorized, none issued and outstanding | -- | - |
| Common stock, par value $.01; 15,000 shares authorized, 12,373 and 12,134 issued, respectively | 124 | 121 |
| Additional paid-in-capital | 62,721 | 61,526 |
| Stock subscriptions receivable | (1) | (13) |
| Retained earnings | 12,654 | 10,575 |
| Less reacquired stock at cost; 338 shares, respectively | (925) | (925) |
| Total shareholders' equity | 74,573 | 71,284 |
| Total liabilities and shareholders' equity | $83,683 | $77,559 |

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



ROMAC INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| Three Months Ended March 31 1997 | Three Months Ended March 31 1996 |
|---|---|
| (unaudited) | (unaudited) |

| | | |
|---|---|---|
| Net service revenues | $34,952 | $16,889 |
| Direct costs of service | 21,004 | 9,719 |
| Gross profit | 13,948 | 7,170 |
| Selling, general and administrative expenses | 10,532 | 5,372 |
| Depreciation and amortization | 659 | 237 |
| Other (income) expense | (609) | (147) |
| Income before income taxes | 3,366 | 1,708 |
| Provision for income taxes | 1,287 | 683 |
| Net income | $ 2,079 | $ 1,025 |
| Net income per share | $0.17 | $0.10 |
| Weighted average shares outstanding | 12,599 | 10,338 |

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



ROMAC INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 1997
(AMOUNTS IN THOUSANDS)
(UNAUDITED)

| | Shares | Amounts |
|---|---|---|
| COMMON STOCK: | | |
| Balance at December 31, 1996 | 12,134 | $ 121 |
| Exercise of stock options | 239 | 3 |
| Balance at March 31, 1997 | 12,373 | $ 124 |
| ADDITIONAL PAID-IN CAPITAL: | | |
| Balance at December 31, 1996 | | $61,526 |
| Exercise of stock options | | 850 |
| Tax benefit related to employee stock options | | 345 |
| Balance at September 30, 1996 | | $62,721 |
| STOCK SUBSCRIPTIONS RECEIVABLE: | | |
| Balance at December 31, 1996 | | $ (13) |
| Payments | | 12 |
| Balance at March 31, 1997 | | $ 1 |
| RETAINED EARNINGS: | | |
| Balance at December 31, 1996 | | $10,575 |
| Net income | | 2,079 |
| Balance at March 31, 1997 | | $12,654 |
| REAQUIRED STOCK: | | |
| Balance at December 31, 1996 | | $ (925) |
| Balance at March 31, 1997 | | $ (925) |

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



ROMAC INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)

| | Three Months Ended March 31 1997 (unaudited) | March 31 1996 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 2,079 | $ 1,025 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 659 | 237 |
| Provision for losses on accounts and notes receivable | 20 | (91) |
| (Increase) decrease in operating assets: | | |
| Trade receivables, net | (3,913) | (3,033) |
| Notes receivable from franchisees, current | (84) | (66) |
| Prepaid expenses and other current assets | (131) | (453) |
| Notes receivable from franchisees, less current portion | 21 | -- |
| Other assets, net | (1,140) | (38) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and other accrued liabilities | (258) | 69 |
| Accrued payroll costs | 1,772 | 1,045 |
| Income taxes payable | 1,280 | 65 |
| Other long-term liabilities | 369 | 16 |
| Cash (used in) provided by operating activities | 674 | (1,224) |
| Cash flows from investing activities: | | |
| Capital expenditures | (627) | (167) |
| Acquisitions | (9,089) | (5,963) |
| Payments for the purchase of short-term investments | (34) | |
| Proceeds from the sale of short-term investments | | 7,243 |
| Cash (used in) provided by investing activities | (9,750) | 1,113 |
| Cash flows from financing activities: | | |
| Payments on notes receivable from stock subscriptions | 13 | -- |
| Payments on notes payable | -- | (91) |
| Issuance of payables to related parties | 17 | 41 |
| Payments on receivables from related parties | 49 | 111 |
| Issuance of receivables from related parties | (394) | (27) |
| Proceeds from exercise of stock options | 853 | 46 |
| Cash provided by (used in) financing activities | 538 | 80 |

| | | |
|---|---|---|
| Decrease in cash and cash equivalents | (8,538) | (31) |
| Cash and cash equivalents at beginning of period | 39,555 | 620 |
| Cash and cash equivalents at end of period | $31,017 | $ 589 |
| Supplemental Cash Flows Information | | |
| Cash paid during the period for: | | |
| Interest | -- | $ 21 |
| Income Taxes | $ 183 | $ 618 |

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



ROMAC INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997
(Unaudited)

Note A --- Summary of Significant Accounting Policies

Principles of Consolidation. The Consolidated Financial Statements include the accounts of Romac International, Inc. (the "Company") and its subsidiaries. All material intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Interim Financial Information. The Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in management's opinion, include all adjustments necessary for a fair statement of results for such interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations; however, the Company believes that the disclosures made are adequate to make the information presented not misleading.

Revenue Recognition. Net service revenues consist of sales from Company-owned and licensed offices, and royalties received from franchised operations, less credits and discounts. The Company recognizes revenue for Professional Temporary and Contract Services based on hours worked by assigned personnel on a weekly basis. Search revenues are recognized in contingency search engagements upon the successful completion of the assignment. In a retained search engagement the initial retainer is recognized upon execution of the agreement, with the balance recognized on completion of the search. Reserves are established to estimate losses due to placed candidates not remaining in employment for the Company's guarantee period, typically 90 days.

Franchise fees are determined based upon a contractual percentage of the revenue billed by franchisees. Costs relating to the support of franchised operations are included in the Company's selling, general and administrative expenses. The Company includes revenues and related direct costs of licensed offices in its net service revenues and direct costs of services, respectively. Commissions paid to licensees is based upon a percentage of the gross profit generated, and is included in the company's direct cost of services.

Cash and Cash Equivalents. The Company classifies all highly-liquid investments with a maturity of three months or less as cash equivalents.

Income Taxes. The Company accounts for income taxes under the principles of FAS 109 "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the carrying amounts and the tax bases of other assets and liabilities. The tax effects of deductions attributable to employees' disqualifying dispositions of shares obtained from incentive stock options were reflected in additional paid-in capital.

Earnings Per Share. In March 1997, Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS 128") was issued which requires disclosure of basic earnings per share and modifies existing guidance for computing fully dilulted earnings per share. Under the new standard, basic earnings per share is computed as earnings divided by weighted average shares excluding the dilutive effects of stock options and other potentially dilutive securities. The effective date of SFAS 128 is December 15, 1997 and early adoption is not permitted. The pro forma impact of adoption of SFAS 128 had no impact on the period ended March 31, 1997, however the Company expects that this pronouncement could have a material impact on Earnings Per Share for the year ended December 31, 1997.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, particularly with respect to the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations. Additional written or oral forward-looking statements may be made by the Company from time to time, in filings with the Securities and Exchange Commission or otherwise. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933 (the "Securities Act') and Section 21 E of the Securities Exchange Act of 1934 (the "Exchange Act"). Such statements may include, but not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, plans for future operations, financing needs or plans, plans relating to products or services of the Company, estimates concerning the effects of litigation or other disputes, as well as assumptions to any of the foregoing.

Forward-Looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted. Future events and actual results could differ materially from those set forth in or underlying the forward-looking statements.

Results of Operations for each of the Three Months Ended March 31, 1997 and 1996.

Revenues. Net service revenues increased 107.1% to $35.0 million in the first three months of 1997 from $16.9 million in the first three months of 1996, primarily as a result of a $10.0 million increase in revenues from existing Company-owned operations and a $8.1 million increase in revenues from acquired operations.

Professional Temporary revenues increased 72.2% to $12.4 million in the first three months of 1997 from $7.2 million in the first three months of 1996. This increase resulted from an increase in the number of hours billed by Company-owned operations during the three months ended March 31, 1997 as compared to the same period in 1996. The average hourly bill rate for the period ended March 31, 1997 increased 13.6% over the prior year due to a continued demand for the Company's knowledge workers and the Company's ability to pass on increased wage costs of its knowledge workers to its customers.

Contract Services revenues increased 166.7% to $16.8 million in the first three months of 1997 from $6.3 million in the first three months of 1996, primarily as a result of a $5.6 million increase in revenues from acquired operations. The increases attributable to Company-owned operations resulted from an increase in the number of hours billed during the three months ended March 31,1997 as compared to the same period in 1996. The average hourly bill rate for Company-owned operations increased 14.4% for the period ended March 31, 1997 due to the continued penetration into existing markets where hourly bill rates are higher such as Boston and Chicago, as well as the increased expansion of the Company's Emerging Technologies Division which concentrates on placing knowledge workers in highly skilled technologies which have the greatest demand.

Search revenues increased 70.6% to $5.8 million during the first three months of 1997 from $3.4 million in the first three months of 1996, primarily as a result of a $1.7 million increase in revenues from existing Company-owned operations and a $.7 million increase in revenues from acquired operations. The increase attributable to Company-owned operations resulted primarily from an increase in the number of Search Division sales consultants, which increased the number of placements made by the Search Division during the first three months of 1997 as compared to the first three months of 1996. The average fee for each placement made during the periods remained relatively constant.



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Franchise and licensee revenues, which are included in the aforementioned division revenues, decreased 44.9% to approximately $461,000 in the first three months of 1997 from approximately $836,000 in the first three months of 1996. The decrease was primarily due to the effects of discontinued franchisee and licensee operations in Minneapolis, St. Louis, and Portland during 1996.

Gross Profit. Gross profit increased 93.1% to $13.9 million in the first three months of 1997 from $7.2 million in the first three months of 1996. Gross profit as a percentage of net service revenues decreased to 39.7% for the first three months of 1997 from 42.5% for the first three months of 1996. This decrease was result of the continuing change in the Company's business mix whereby revenues from the Professional Temporary and Contract Services Divisions, traditionally lower gross margins than Search division revenues, increased to 83.5 of the Company's total revenues during the first three months ended March 31, 1997 as compared to 79.9% for the same period in 1996.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 94.4% to $10.5 million in the first three months of 1996. Selling, general and administrative expenses as a percentage of net service revenues decreased to 30.0% for the first three months of 1997 from 31.8% for the first three months of 1996. This decrease in selling, general and administrative expense as a percentage of net service revenues resulted from greater operating efficiencies and economies of scale gained from a larger revenue base.

Depreciation and amortization expense. Depreciation and amortization expense increased 178.1% to approximately $659,000 in the first three months of 1997 from approximately $237,000 in the first three months of 1996. Depreciation and amortization expense as a percentage of net service revenues increased to 1.9% for the first three months of 1997 from 1.4% for the first three months of 1996. This increase was a result of the Company incurring additional amortization expense for the three months ended March 31, 1997 related to goodwill recorded as a result of the Company's acquisitions in 1996.

Other (income) expense. Other (income) expense increased to approximately $609,000 of income in the first three months of 1997 from approximately $147,000 of income in the first three months of 1996. This increase was primarily due to interest earned on the investment of the proceeds from the May 1996 secondary offering.

Income Before Taxes. Income before taxes increased 100.0% to $3.4 million in the first three months of 1997 from $1.7 million in the first three months of 1996, primarily as a result of the above factors.

Income Taxes. The effective tax rate was 38.2% for the three months ended March 31, 1997 compared to 40% for the three months ended March 31, 1996.

Net Income. Net income increased $2.1 million in the first three months of 1997 from approximately $1.0 million in the first three months of 1996, primarily as a result of the above described factors.

## Liquidity and Capital Resources

As of March 31, 1997 the Company's sources of liquidity included approximately $31.0 million in cash and cash equivalents, approximately $914,000 in short-term investments, and approximately $15.8 million in additional net working capital. In addition, as of March 31, 1997, $5.0 million was available for borrowing under the Company's line of credit.

The Company is currently negotiating with various lending institutions to expand it's line of credit facilities.



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During the first three months of 1997, cash flow used by operations was approximately $674,000 resulting primarily from net income, non-cash expenses (depreciation and amortization) and increases in operating payroll liabilities, offset by a significant increase in accounts receivable. The increase in accounts receivable reflects the increased volume of business during the first three months of 1997 from Company-owned locations and the initial funding of the accounts receivable base in acquired operations.

During the first three months of 1997, cash flow used in investing activities was approximately $9.8 million, resulting primarily from the Company's use of approximately $9.1 million in cash for acquisitions obtained from the sale of the Company's short-term investments.

The Company believes its cash balance, short-term investments and available line of credit borrowings will be sufficient to meet it's anticipated cash requirements for at least the next twelve months unless it uses a substantial portion of it's cash balances to fund additional acquisitions. In the event that the Company does complete significant acquisitions, the Company beleives it has the ability to raise additional funds through its available line of credit and through other financing vehicles.



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## PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None

ITEM 2. CHANGES IN SECURITIES
None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION
None

ITEM 6. EXHIBITS AND REPORTS ON FORM 10-Q
(a) Exhibits
None

(b) Reports:
None

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ROMAC INTERNATIONAL, INC.
(Registrant)

/s/ Thomas Calcaterra

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Thomas Calcaterra, Chief Financial Officer
and Secretary

Date: May 15, 1997

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<ARTICLE> 5
<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S 10-Q REPORT FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<MULTIPLIER> 1

| | | |
|---|---|---|
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