ON ASSIGNMENT INC
Form 10-Q
August 09, 2011

UNITED STATES
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 June 30, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-20540

ON ASSIGNMENT, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4023433
(State of Incorporation)	(I.R.S. Employer Identification No.)
26745 Malibu Hills Road, Calabasas, CA	91301
(Address of principal executive offices)	(Zip Code)

(818) 878-7900

(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. xYes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). xYes o No

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

At July 29, 2011, the total number of outstanding shares of the Company's Common Stock ($0.01 par value) was 37,037,068.

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PART I - FINANCIAL INFORMATION
Item 1 — Condensed Consolidated Financial Statements (Unaudited)

ON ASSIGNMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(Dollars in thousands, except per share data)

	June 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,183	$ 18,409
Accounts receivable, net of allowance of $2,398 and $2,175, respectively	80,831	62,518
Advances and deposits	219	480
Prepaid expenses	3,683	3,555
Prepaid income taxes	91	494
Deferred income tax assets	9,227	8,784
Other	1,495	1,406
Total current assets	114,729	95,646
Property and equipment, net	17,515	15,818
Goodwill	216,401	199,720
Identifiable intangible assets, net	30,365	25,170
Other long-term assets	4,663	4,762
Total Assets	$ 383,673	$ 341,116
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 5,000	$ 5,000
Accounts payable	7,850	5,392
Accrued payroll and contract professional pay	23,165	15,727
Deferred compensation	2,133	2,198
Workers' compensation and medical malpractice loss reserves	10,391	10,244
Income taxes payable	3,775	1,496
Current portion of accrued earn-outs	3,306	800
Other	4,626	4,193
Total current liabilities	60,246	45,050
Deferred income tax liabilities	9,962	10,156
Long-term debt	72,250	61,750
Accrued earn-outs	4,560	2,900
Other long-term liabilities	3,727	1,773
Total liabilities	150,745	121,629
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
	—	—

Preferred Stock, $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding				
Common Stock, $0.01 par value, 75,000,000 shares authorized, 37,003,717 and 36,398,811 issued and outstanding, respectively		370		365
Paid-in capital		227,439		224,139
Retained earnings (accumulated deficit)		4,008		(5,021)
Accumulated other comprehensive income		1,111		4
Total stockholders' equity		232,928		219,487
Total Liabilities and Stockholders' Equity	$	383,673	$	341,116

See notes to condensed consolidated financial statements.

ON ASSIGNMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	$ 143,683	$ 104,459	$ 273,121	$ 200,772
Cost of services	94,889	69,163	181,173	134,653
Gross profit	48,794	35,296	91,948	66,119
Selling, general and administrative expenses	37,999	31,964	74,754	61,795
Operating income	10,795	3,332	17,194	4,324
Interest expense	(784)	(1,607)	(1,514)	(3,167)
Interest income	4	32	21	64
Income before income taxes	10,015	1,757	15,701	1,221
Provision for income taxes	4,150	817	6,672	583
Net income	$ 5,865	$ 940	$ 9,029	$ 638
Earnings per share:				
Basic	$ 0.16	$ 0.03	$ 0.25	$ 0.02
Diluted	$ 0.16	$ 0.03	$ 0.24	$ 0.02
Number of shares and share equivalents used to calculate earnings per share:				
Basic	36,971	36,427	36,798	36,394
Diluted	37,718	37,150	37,623	37,165
Reconciliation of net income to comprehensive income (loss):				
Net income	$ 5,865	$ 940	$ 9,029	$ 638
Changes in fair value of derivative, net of tax of $111 and $194 for the three months and six months ended June 30, 2011, respectively	(188)	-	(327)	-
Foreign currency translation adjustment	818	(995)	1,438	(1,745)
Comprehensive income (loss)	$ 6,495	$ (55)	$ 10,140	$ (1,107)

See notes to condensed consolidated financial statements.

ON ASSIGNMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash Flows from Operating Activities:		
Net income	$ 9,029	$ 638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,234	2,902
Amortization of intangible assets	970	1,073
Provision for doubtful accounts and billing adjustments	484	175
Stock-based compensation	3,246	3,219
Amortization of deferred loan costs	231	510
Gain (loss) on officers’ life insurance policies	(55)	98
Gross excess tax benefits from stock-based compensation	(535)	(72)
(Gain) loss on disposal of property and equipment	19	(30)
Settlement of earn-out	(1,369)	—
Workers’ compensation and medical malpractice provision	1,491	1,989
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(13,626)	(1,424)
Prepaid expenses	512	821
Prepaid income taxes	(92)	3,046
Accounts payable	1,718	620
Accrued payroll and contract professional pay	5,119	3,235
Income taxes payable	1,497	—
Deferred compensation	(66)	(107)
Workers’ compensation and medical malpractice loss reserves	(718)	(1,840)
Tenant improvement allowances	1,189	—
Other	667	(380)
Net cash provided by operating activities	12,945	14,473
Cash Flows from Investing Activities:		
Purchase of property and equipment	(4,672)	(2,836)
Net cash paid for acquisitions	(17,107)	(5,361)
Other	278	149
Net cash used in investing activities	(21,501)	(8,048)
Cash Flows from Financing Activities:		
Principal payments of long-term debt	(15,000)	—
Proceeds from borrowings on revolving credit facility	25,500	—
Proceeds from stock transactions	1,455	156
Payments of employment taxes related to release of restricted stock awards	(1,619)	(684)
Gross excess tax benefits from stock-based compensation	535	72

Payments for previous acquisitions	(22)	(22)
Payments of accrued earn-outs	(1,731)	(34)
Net cash provided by (used in) financing activities	9,118	(512)
Effect of exchange rate changes on cash and cash equivalents	212	(1,404)
Net Increase in Cash and Cash Equivalents	774	4,509
Cash and Cash Equivalents at Beginning of Year	18,409	25,974
Cash and Cash Equivalents at End of Period	$ 19,183	$ 30,483

(continued)

	Six Months Ended June 30, 2011	2010
Supplemental Disclosure of Cash Flow Information:		
Cash paid (received) for:		
Income taxes, net of refunds	$ 5,078	$ (2,450)
Interest	$ 1,355	$ 2,872
Supplemental Disclosure of Non-Cash Transactions:		
Accrued earn-out	$ 7,266	$ 2,300
Acquisition of property and equipment through accounts payable	$ 327	$ 408

See notes to condensed consolidated financial statements.

ON ASSIGNMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Financial Statement Presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The information reflects all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position of On Assignment, Inc and its subsidiaries (the Company) and its results of operations for the interim dates and periods set forth herein. The results for the six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year or any other period. The Company has evaluated subsequent events after the balance sheet date through the issuance date for appropriate accounting and disclosure. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

2. Accounting Standards Updates. In January 2010, the Financial Accounting Standard Board (FASB) issued an update to ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820), which requires new disclosures for fair value measurements and provides clarification for existing disclosure requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure were effective for fiscal years beginning after December 15, 2009, except for the disclosure requirements related to the purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements, which were effective for fiscal years beginning after December 15, 2010. The Company adopted the measurement requirements of this guidance with no impact to the consolidated financial statements. See Note 6 for the disclosures required by this standard.

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805)—Business Combinations (ASU 2010-29), to improve consistency in how the pro forma disclosures are calculated. Additionally, ASU 2010-29 enhances the disclosure requirements and requires description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to a business combination. ASU 2010-29 is to be applied prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company adopted the disclosure requirements in the first quarter of 2011.

3. Acquisitions. On February 28, 2011, the Company acquired Valesta, a privately-owned provider of specialized clinical research staffing headquartered in Belgium. The primary reasons for the acquisition were to expand the Life Sciences business operations and to leverage the Company’s existing selling, general and administrative (SG&A) infrastructure. The financial results for Valesta from the date of the acquisition are included in the Life Sciences segment. From the date of acquisition through June 30, 2011, revenues and net income from Valesta were $8.5 million and $0.2 million, respectively.

The estimated purchase price for Valesta was approximately $23.6 million consisting of the initial $16.8 million paid in cash and future estimated earn-out payments of $6.8 million (the maximum earn-out is capped at a Euro value of 5.0 million or approximately $7.3 million at current exchange rates) based on estimated financial performance of Valesta through 2013. The estimated future earn-out payments are included in other long-term liabilities in the accompanying Consolidated Balance Sheets. Transaction costs related to this transaction totaled approximately $0.4 million and were included in SG&A expense. Goodwill is not expected to be deductible for tax purposes. The Company utilized its existing cash and proceeds from its senior credit facility to fund the acquisition. See Note 4 for further information on the credit facility.

The Company's allocation of the purchase price for Valesta is preliminary as the amounts related to certain liabilities and income taxes are still being finalized. Any measurement period adjustments will be recorded retrospectively to the acquisition date.

The following table summarizes (in thousands) our preliminary allocation, subject to finalization during the allocation period, of the purchase price for the Valesta acquisition:

Current assets	$	6,551
Property and equipment		299
Goodwill		15,878
Identifiable intangible assets		5,679
Long-term deposits		26
Total assets acquired	$	28,433
Current liabilities	$	4,774
Total liabilities assumed		4,774
Total purchase price	$	23,659

Intangible assets allocated in connection with the preliminary purchase allocation, subject to finalization during the measurement period as necessary, consisted of the following amounts (in thousands):

	Useful life		Intangible asset value
Contractor relations	2 years	$	266
Customer relations	10 years		2,395
Non-compete agreements	2 years		440
Trademarks	N/A		2,578
Total intangible assets acquired		$	5,679

The summary below (in thousands, except for per share data) presents pro forma consolidated results of operations for the six months ended June 30, 2011 and 2010 as if the acquisition of Valesta had occurred on January 1, 2010. The pro forma financial information gives effect to certain adjustments, including: the amortization of intangible assets and interest expense on acquisition-related debt and changes in the management fees as a result of the acquisition and exclusion of $0.4 million of acquisition-related costs, which were expensed in the three months ended March 31, 2011. The pro-forma financial information is not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated as of the date indicated, nor are they necessarily indicative of future operating results.

	Six Months Ended June 30,			
		2011		2010
Revenues	$	276,879	$	210,536
Operating income	$	17,955	$	4,364
Net income	$	9,433	$	896
Basic earnings per share	$	0.26	$	0.02
Diluted earnings per share	$	0.25	$	0.02
Weighted average number of shares outstanding		36,798		36,394
Weighted average number of shares and dilutive shares outstanding		37,623		37,165

On July 31, 2011, the Company completed its acquisition of HealthCare Partners, a privately-owned provider of physician staffing headquartered in Atlanta, Georgia. The cash purchase price of $15.0 million was paid on August 1, 2011 and there is an additional earn-out opportunity of $3.7 million included in the total cost of acquisition. The primary reasons for this acquisition were to expand the Physicians business operations and to leverage the Company's existing selling, general and administrative (SG&A) infrastructure. Not all disclosures related to the acquisition have been made as the accounting related to the business combination is incomplete. Additionally, insufficient time after the acquisition has made it impracticable to provide supplemental pro forma information for the combined entity.

4. Long-Term Debt. Long-term debt at June 30, 2011 and December 31, 2010, consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Senior Secured Debt:		
$75 million revolving credit facility, due January 2015	$ 31,000	$ 18,000
$50 million term loan facility, due January 2015	46,250	48,750
Total	$ 77,250	$ 66,750

As of June 30, 2011 and December 31, 2010, the Company was in compliance with all of its financial covenants, including minimum quarterly principal payment requirements.

5.Derivative Instruments. The Company utilizes derivative financial instruments to manage interest rate risk. The Company does not use derivative financial instruments for trading or speculative purposes, nor does it use leveraged financial instruments. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company's derivative instruments are recorded at their fair value, and are included in other long-term assets and other liabilities in the Consolidated Balance Sheets.

On February 18, 2011, the Company entered into an interest rate swap agreement to hedge a portion of its interest rate exposure on its senior secured debt. The swap has a notional amount of $25.0 million and fixes a portion of the Company's base borrowing rate, which is a floating rate, based on a LIBOR swap rate that resets periodically. The interest rate swap was designated as a hedging instrument for accounting purposes and is accordingly accounted for as a cash flow hedge. Any unrealized losses on this interest rate swap agreement are included in accumulated other comprehensive income until the periodic interest settlements occur, at which time they will be recorded as interest expense in the Consolidated Statements of Operations and Comprehensive Income (Loss). The Company expects to reclassify losses of $0.3 million (pretax) from Accumulated Other Comprehensive Income to interest expense in the Consolidated Statements of Operation within the next twelve months.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. At June 30, 2011, the counterparty to the interest rate swap had investment grade ratings and has performed in accordance with their contractual obligations.

The fair values of derivative instruments in the Consolidated Balance Sheets are as follows (in thousands):

	Other Liabilities		Other Long-Term Liabilities	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Interest rate swap	$ 340	$ —	$ 180	$ —

The following table reflects the effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Location of Gain/Loss Recognized on Derivative	Amount of Loss Recognized on Derivative			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Interest rate swap	Accumulated Other Comprehensive Income (net of tax)	$ (188)	$ —	$ (327)	$ —

6. Fair Value of Financial Instruments. The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

The recorded values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value based on their short-term nature.

The interest rate swap liability is measured using the income approach. The fair value reflects the estimated amounts that the Company would pay or receive based on the present value of the expected cash flows derived from market rates and prices. As such, this derivative instrument is classified within Level 2. There was no interest rate swap or cap outstanding as of June 30, 2010.

The Company has obligations to be paid in cash to the former owners of Sharpstream (a newly acquired company as of April 2010) and Valesta (a newly acquired company as of February 2011) if certain future financial goals are met. The fair value of this contingent consideration is determined using an expected present value technique. Expected cash flows are determined using the probability - weighted average of possible outcomes that would occur should certain financial metrics be reached. There is no market data available to use in valuing the contingent consideration, therefore, the Company developed its own assumptions related to the future financial performance of the businesses to evaluate the fair value of these liabilities. The liabilities for the contingent consideration were established at the time of the acquisition and are evaluated at each reporting period. The current liability is included in the Condensed Consolidated Balance Sheets in other and the non-current portion is included in accrued earn-outs.

The assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	As of June 30, 2011 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest rate swap	$ —	$ 520	$ —	$ 520
Contingent consideration to be paid in cash for the acquisitions	$ —	$ —	$ 7,866	$ 7,866

	As of December 31, 2010 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Contingent consideration to be paid in cash for the acquisitions	$ —	$ —	$ 3,700	$ 3,700

Reconciliations of liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Contingent consideration for acquisitions				
Balance at beginning of period	$ 10,800	$ —	$ 3,700	$ —
Additions for acquisitions	—	2,300	6,876	2,300
Payments on contingent consideration	(1,731)	—	(1,731)	—
Settlements of contingent consideration	(1,369)	—	(1,369)	—
Foreign currency translation adjustment	166	—	390	—
Balance at end of period	$ 7,866	$ 2,300	$ 7,866	$ 2,300

The following table presents the carrying amounts and the related estimated fair values of the financial assets and liabilities not measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$ (72,250)	$ (72,250)	$ (61,750)	$ (61,750)

The fair value of the long-term debt is based on the yields of comparable companies with similar credit characteristics.

Certain assets and liabilities, such as goodwill, are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At June 30, 2011, no fair value adjustments were required for non-financial assets or liabilities. The Company recognized a goodwill impairment charge of $15.4 million related to Nurse Travel in the fourth quarter of 2010. The goodwill impairment charge for Nurse Travel was a result of the decreased fair value of the reporting unit due to lowered growth expectations in the later years because of uncertainty regarding the timing of the recovery of the Nurse Travel industry.

7. Goodwill and Identifiable Intangible Assets. The changes in the carrying amount of goodwill for the six months ended June 30, 2011 were as follows (in thousands):

	Life Sciences	Healthcare	Physician	IT and Engineering	Total
Gross carrying value	$ 12,561	$ 122,230	$ 37,163	$ 149,483	$ 321,437
Accumulated impairment		(121,717)			(121,717)
Balance as of December 31, 2010	$ 12,561	$ 513	$ 37,163	$ 149,483	$ 199,720
Valesta acquisition (see Note 3)	15,878				15,878
Foreign currency translation adjustment	803				803
Balance as of June 30, 2011	$ 29,242	$ 513	$ 37,163	$ 149,483	$ 216,401

During the second quarter of 2011, the Company recorded a $0.3 million reduction in intangible assets with indefinite and definite lives related to the Valesta acquisition, which related primarily to customer relations (10 year amortization period). The purchased identifiable intangible assets are amortized on an accelerated or straight-line basis over their respective useful lives depending on the intangible asset.

As of June 30, 2011 and December 31, 2010, the Company had the following acquired intangible assets (in thousands):

		June 30, 2011			December 31, 2010		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
InIntangible assets subject to amortization:							
Customer relations	3 months - 10 years	$ 10,319	$ 7,257	$ 3,062	$ 7,740	$ 6,830	$ 910
Contractor relations	3 - 7 years	26,491	25,045	1,446	26,111	24,600	1,511
Non-compete agreements	2 - 3 years	913	472	441	470	371	99
In-use software	2 years	500	500		500	500	
		38,223	33,274	4,949	34,821	32,301	2,520
Intangible assets not subject to amortization:							
Trademarks		25,416	—	25,416	22,650	—	22,650
Goodwill		216,401	—	216,401	199,720	—	199,720
Total		$ 280,040	$ 33,274	$ 246,766	$ 257,191	$ 32,301	$ 224,890

Amortization expense for intangible assets with finite lives was $0.6 million and $0.4 million for the three months ended June 30, 2011 and 2010, respectively. Amortization expense for intangible assets with finite lives was $1.0 million and $1.1 million for the six months ended June 30, 2011 and June 30, 2010, respectively. Estimated amortization for the remainder of 2011 is $1.0 million. Estimated amortization for each of the four years in the period ending December 31, 2015 is $1.6 million, $1.0 million, $0.3 million and $0.2 million, respectively. For the year 2016 and beyond, the estimated amortization expense is $0.8 million.

Goodwill and other intangible assets having an indefinite useful life are not amortized for financial statement purposes. Goodwill and intangible assets with indefinite lives are reviewed for impairment on an annual basis as of December 31 and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

8. Property and Equipment. The Company has capitalized costs related to its various technology initiatives. The net book value of the property and equipment related to software development was $8.1 million as of June 30, 2011 and $7.9 million as of December 31, 2010, which includes work-in-progress of $4.2 million and $3.0 million, respectively.

9.Incentive Award Plan and Employee Stock Purchase Plan. The Company granted discrete stock-based awards to its Chief Executive Officer (CEO) as follows: (i) a market based award in 2010, which as of June 30, 2011 was valued at $0.5 million, which is the full value of the award based on the achievement of defined market targets. This award is expensed over a service period of 2.6 years and the number of shares will be determined by dividing $0.5 million by the closing price of the Company stock on February 1, 2013, (ii) a performance based award on March 8, 2011, which had a fair value of $1.0 million and is being expensed over a service period of 9.9 months. The number of restricted stock units (RSUs) awarded will be determined by dividing up to $1.0 million by the closing price of the Company’s stock on February 1, 2013 and February 1, 2014 contingent upon the Company meeting certain financial performance objectives measured over the twelve month period ending December 31, 2011. Furthermore, certain provisions of ASC Topic 480, Distinguishing Liabilities from Equity, require the Company to classify and account for these types of awards as a liability award until the number of shares is determined. The associated liability related to these awards is included in other long-term liabilities in the accompanying Consolidated Balance Sheets and totaled $0.6 million as of June 30, 2011.

In March 2011, the CEO was also awarded the following incentive equity grants: (i) 94,007 RSUs granted on January 3, 2011, with a fair market value of $0.8 million, which will vest on January 1, 2012, based on the Company achieving positive EBITDA during the twelve month period ending December 31, 2011; and (ii) 58,754 RSUs granted on March 8, 2011 with a grant date fair market value of $0.5 million, which will vest in two equal components on January 1, 2012 and January 1, 2013, contingent upon the Company achieving certain performance objectives based on adjusted EBITDA approved by the Compensation Committee over the twelve-month period ending December 31, 2011. The grant-date fair value of the RSUs described in this paragraph is expensed over the vesting term, based on an estimate of the percentage achievement of the applicable performance targets. All awards are subject to the CEO's continued employment through applicable vesting dates. All awards may vest on an accelerated basis in part or in full upon the occurrence of certain events.

In March 2011, the Company granted RSUs to certain other executive officers with an aggregate grant date fair value of $1.1 million, forty percent of which vest on the first anniversary of the date of grant, contingent upon continued employment and the Company attaining certain performance objectives during 2011 and sixty percent of which vest in equal increments on the first three anniversaries of the grant date based on continued employment only. Compensation expense for the performance-based component of these awards is recognized over the vesting period, based on an estimate of the percentage achievement of the targets for these awards. The maximum compensation expense related to the performance-based component of these awards that may be recognized is $0.2 million expensed over the vesting term. Compensation expense that will be recognized related to the time-based component of these awards is $0.9 million, which is being expensed over the vesting term beginning on the grant date.

On March 31, 2011, under the On Assignment 2010 Employee Stock Purchase Plan (ESPP), the Company issued 104,610 shares of common stock. This was the first issuance of common stock under this ESPP plan subsequent to an employee stock purchase plan program re-instatement in June 2010. The prior employee stock purchase plan was terminated in 2009.

Compensation expense charged to operations related to stock-based compensation, including the ESPP, was $1.6 million and $3.2 million for the three and six months ended June 30, 2011, respectively, and $1.9 million and $3.2 million for the three and six months ended June 30, 2010, respectively and is included in the Consolidated Statements of Operations and Comprehensive Income (Loss) in selling, general and administrative expenses.

10. Commitments and Contingencies. The Company is partially self-insured for its workers' compensation liability related to the Life Sciences, Healthcare and IT and Engineering segments, as well as its medical malpractice liability in the Physician segment. The Company accounts for claims incurred but not reported based on estimates derived from historical claims experience and current trends of industry data. Changes or differences in estimates and actual payments for claims are recognized in the period that the estimates changed or the payments were made. The self-insurance claim liability was approximately $10.4 million at June 30, 2011 and $10.2 million at December 31, 2010. Additionally, the Company has letters of credit outstanding to secure obligations for workers' compensation claims with various insurance carriers. The letters of credit outstanding were $2.1 million at June 30, 2011 and $2.8 million at December 31, 2010.

The Company is involved in various legal proceedings, claims and litigation arising in the ordinary course of business. However, based on the facts currently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on its financial position, results of operations or cash flows.

11. Earnings per share. Basic earnings per share are computed based upon the weighted average number of common shares outstanding, and diluted earnings per share are computed based upon the weighted average number of common shares outstanding and dilutive common share equivalents (consisting of incentive stock options, non-qualified stock options, restricted stock awards and units and employee stock purchase plan shares) outstanding during the periods using the treasury stock method.

The following is a reconciliation of the shares used to compute basic and diluted earnings per share (in thousands):

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Weighted average number of common shares outstanding used to compute basic earnings per share	36,971	36,427	36,798	36,394
Dilutive effect of stock-based awards	747	723	825	771
Number of shares used to compute diluted earnings per share	37,718	37,150	37,623	37,165

The following table outlines the weighted average share equivalents outstanding during each period that were excluded from the computation of diluted earnings per share because the exercise price for these options was greater than the average market price of the Company's shares of common stock during the respective periods. Also excluded from the computation of diluted earnings per share were other share equivalents that became anti-dilutive when applying the treasury stock method (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Anti-dilutive common share equivalents outstanding	1,181	1,685	1,044	1,364

12. Income Taxes. For the interim reporting periods, the Company prepares an estimate of the full-year income and the related income tax expense for each jurisdiction in which the Company operates. Changes in the geographical mix, permanent differences or estimated level of annual pretax income can impact our actual effective rate.

As of June 30, 2011 and December 31, 2010, the estimated value of the Company's uncertain tax positions is a liability of $0.3 million, which includes penalties and interest, all of which was carried in other long-term liabilities. If the Company's positions are sustained by the taxing authority in favor of the Company, the entire $0.3 million would reduce the Company's effective tax rate. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. The IRS has examined and concluded all tax matters for years through 2006. Open tax years related to federal, state and foreign jurisdictions remain subject to examination but are not considered material.

13. Segment Reporting. The Company has four reportable segments: Life Sciences, Healthcare, Physician and IT and Engineering. The Company's management evaluates the performance of each segment primarily based on revenues, gross profit and operating income. The information in the following table is derived directly from the segments' internal financial reporting used for corporate management purposes.

The following table presents revenues, gross profit and operating income (loss) by reportable segment (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Life Sciences	$ 39,626	$ 25,511	$ 72,583	$ 48,561
Healthcare	21,736	19,300	41,580	37,876
Physician	17,002	18,417	33,520	37,288
IT and Engineering	65,319	41,231	125,438	77,047
Total Revenues	$ 143,683	$ 104,459	$ 273,121	$ 200,772
Gross Profit:				
Life Sciences	$ 13,592	$ 8,115	$ 24,862	$ 15,409
Healthcare	6,157	5,752	11,784	10,721
Physician	5,633	6,280	10,932	12,269
IT and Engineering	23,412	15,149	44,370	27,720
Total Gross Profit	$ 48,794	$ 35,296	$ 91,948	$ 66,119
Operating Income (Loss):				
Life Sciences	$ 2,891	$ 763	$ 4,352	$ 1,402
Healthcare	(1,234)	(1,711)	(2,901)	(3,836)
Physician	1,136	1,543	1,767	2,781
IT and Engineering	8,002	2,737	13,976	3,977
Total Operating Income	$ 10,795	$ 3,332	$ 17,194	$ 4,324

The Company operates internationally, with operations mainly in the United States, Europe, Canada, Australia and New Zealand. The following table presents revenues by geographic location (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Domestic	$ 124,005	$ 98,231	$ 240,290	$ 187,959
Foreign	19,678	6,228	32,831	12,813
Total Revenues	$ 143,683	$ 104,459	$ 273,121	$ 200,772

The Company does not report Life Sciences and Healthcare segments' total assets separately as the operations are largely centralized. The following table presents total assets as allocated by reportable segment (in thousands):

	June 30, 2011	December 31, 2010
Total Assets:		
Life Sciences and Healthcare	$ 105,849	$ 74,979
Physician	62,670	63,908
IT and Engineering	215,154	202,229
Total Assets	$ 383,673	$ 341,116

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

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words "believes," "anticipates," "plans," "expects," "intends," and similar expressions are intended to identify forward-looking statements. Forward-looking statements include statements regarding our anticipated financial and operating performance for future periods. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, the following: (1) the continued negative impact of the uncertain economic environment; (2) actual demand for our services; (3) our ability to attract, train and retain qualified staffing consultants; (4) our ability to remain competitive in obtaining and retaining temporary staffing clients; (5) the availability of qualified contract nurses and other qualified contract professionals; (6) our ability to manage our growth efficiently and effectively; (7) continued performance of our information systems; and (8) other risks detailed from time to time in our reports filed with the Securities and Exchange Commission, including in our Annual Report on Form 10-K, for the year ended December 31, 2010, as filed with the SEC on March 16, 2011, under the section "Risk Factors." Other factors also may contribute to the differences between our forward-looking statements and our actual results. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. All forward-looking statements in this document are based on information available to us as of the date we file this Quarterly Report on Form 10-Q, and we assume no obligation to update any forward-looking statement or the reasons why our actual results may differ.

OVERVIEW

On Assignment, Inc. is a diversified professional staffing firm providing flexible and permanent staffing solutions in specialty skills including Laboratory/Scientific, Healthcare/Nursing, Physicians, Information Technology and Engineering. We provide clients in these markets with short-term or long-term assignments of contract professionals, contract-to-permanent placement and direct placement of these professionals. Our business currently consists of four operating segments: Life Sciences, Healthcare, Physician, and IT and Engineering.

The Life Sciences segment includes our domestic and international life science staffing lines of business. We provide locally-based, contract life science professionals to clients in the biotechnology, pharmaceutical, food and beverage, medical device, personal care, chemical, nutraceutical, materials science, consumer products, environmental petrochemical and contract manufacturing industries. Our contract professionals include chemists, clinical research associates, clinical lab assistants, engineers, biologists, biochemists, microbiologists, molecular biologists, food scientists, regulatory affairs specialists, lab assistants and other skilled scientific professionals.

The Healthcare segment includes our Nurse Travel and Allied Healthcare lines of business. We offer our healthcare clients contract professionals, both locally-based and traveling, from a number of healthcare medical financial and allied occupations. Our contract professionals include nurses, specialty nurses, health information management professionals, dialysis technicians, surgical technicians, imaging technicians, x-ray technicians, medical technologists, phlebotomists, coders, billers, claims processors and collections staff.

Our Physician segment consists mainly of VISTA Staffing Solutions, Inc. (VISTA) which is a leading provider of physician staffing, known as locum tenens coverage, and permanent physician search services based in Salt Lake City, Utah. We provide short and long-term locum tenens coverage and full-service physician search and consulting in the United States with capabilities in Australia and New Zealand. VISTA works with physicians from nearly all medical specialties, placing them in hospitals, community-based practices, and federal, state and local facilities.

Our IT and Engineering segment consists mainly of Oxford Global Resources, Inc. (Oxford) which delivers high-end consultants with expertise in specialized information technology, software and hardware engineering, mechanical, electrical, validation and telecommunications engineering fields. We combine international reach with local depth, serving clients through a network of Oxford International recruiting centers in the United States and Europe, and Oxford & Associates branch offices in major metropolitan markets across the United States. Oxford is based in Beverly, Massachusetts.

Second Quarter 2011 Update

In the second quarter, consolidated revenues and earnings per share grew year-over-year and sequentially over the first quarter. We saw demand strengthen in all of the segments we serve. In February, we completed the acquisition of Valesta, a privately-owned provider of specialized staffing in the area of clinical research with operations in Europe. The purchase price included $16.8 million in cash paid at closing, plus potential for future consideration of up to 5.0 million Euro ($7.3 million at current exchange rates), based upon the operating results of the related business through December 31, 2013. The primary reasons for the Valesta acquisition were to expand our Life Sciences business operations and to leverage the Company's existing SG&A infrastructure. On July 31, 2011, we completed the acquisition of HealthCare Partners a privately owned provider of physician staffing headquartered in Atlanta, Georgia. Going forward our strategy is to continue growing our business both organically and through strategic acquisitions.

Seasonality

Demand for our staffing services historically has been lower during the first and fourth quarters due to fewer business days resulting from client shutdowns, adverse weather conditions and a decline in the number of contract professionals willing to work during the holidays. As is common in the staffing industry, we run special incentive programs to keep our contract professionals, particularly nurses, working through the holidays. Demand for our staffing services usually increases in the second and third quarters of the year. In addition, our cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

RESULTS OF OPERATIONS

The following table summarizes selected statements of operations data expressed as a percentage of revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services	66.0	66.2	66.3	67.1
Gross profit	34.0	33.8	33.7	32.9
Selling, general and administrative expenses	26.5	30.6	27.4	30.8
Operating income	7.5	3.2	6.3	2.1
Interest expense	(0.5)	(1.5)	(0.6)	(1.5)
Interest income	0.0	0.0	0.0	0.0
Income before income taxes	7.0	1.7	5.7	0.6
Provision for income taxes	2.9	0.8	2.4	0.3
Net income				