

KFORCE INC
 Form 10-Q
 November 04, 2015
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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2015

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 000-26058

Kforce Inc.
 (Exact name of registrant as specified in its charter)

| | |
|--|-----------------------------------|
| FLORIDA | 59-3264661 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 1001 EAST PALM AVENUE, TAMPA, FLORIDA | 33605 |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code: (813) 552-5000 | |

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 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). Yes 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 | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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

The number of shares outstanding of the registrant's common stock as of October 30, 2015 was 28,920,792.

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KFORCE INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2015

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

References in this document to “the Registrant,” “Kforce,” “the Company,” “we,” “the Firm,” “our” or “us” refer to Kforce Inc and its subsidiaries, except where the context otherwise requires or indicates.

This report, particularly Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) and Part II. Item 1A. Risk Factors, and the documents we incorporate into this report contain certain statements that are, or may be deemed to be, forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements may include, but may not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, future prospects, our beliefs regarding potential government actions, anticipated costs and benefits of proposed (or future) acquisitions, integration of acquisitions, transition of divestitures, plans for future operations, capabilities of business operations, effects of interest rate variations, our ability to obtain financing and favorable terms, financing needs or plans, plans relating to services of Kforce, estimates concerning the effects of litigation or other disputes, estimates concerning our ability to collect on our accounts receivable, expectations of the overall economic outlook, developments within the staffing sector including, but not limited to, the penetration rate (the percentage of temporary staffing to total employment) and growth in temporary staffing, a reduction in the supply of candidates for temporary employment or the Firm’s ability to attract candidates, the success of the Firm in attracting and retaining revenue-generating headcount, estimates concerning goodwill impairment, as well as assumptions as to any of the foregoing and all statements that are not based on historical fact but rather reflect our current expectations concerning future results and events. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and MD&A sections. In addition, when used in this discussion, the terms “anticipate,” “assume,” “estimate,” “expect,” “intend,” “plan,” “believe,” “will,” “may,” “could,” “should” and variations of similar expressions are intended to identify forward-looking statements.

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. Readers are cautioned not to place undue reliance on any forward-looking statements contained in this report, which speak only as of the date of this report. Kforce undertakes no obligation to publicly publish the results of any adjustments to these forward-looking statements that may be made to reflect events on or after the date of this report or to reflect the occurrence of unexpected events.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2015 | 2014 | 2015 | 2014 |
| Net service revenues | \$341,575 | \$ 313,810 | \$991,539 | \$ 898,592 |
| Direct costs of services | 231,754 | 215,519 | 680,940 | 622,389 |
| Gross profit | 109,821 | 98,291 | 310,599 | 276,203 |
| Selling, general and administrative expenses | 84,167 | 82,090 | 249,714 | 234,218 |
| Depreciation and amortization | 2,579 | 2,642 | 7,402 | 7,391 |
| Income from operations | 23,075 | 13,559 | 53,483 | 34,594 |
| Other expense, net | 463 | 218 | 1,907 | 1,025 |
| Income from continuing operations, before income taxes | 22,612 | 13,341 | 51,576 | 33,569 |
| Income tax expense | 9,067 | 5,346 | 20,653 | 13,232 |
| Income from continuing operations | 13,545 | 7,995 | 30,923 | 20,337 |
| Income from discontinued operations, net of income taxes | — | 57,023 | — | 61,633 |
| Net income | 13,545 | 65,018 | 30,923 | 81,970 |
| Other comprehensive income (loss): | | | | |
| Defined benefit pension and post-retirement plans, net of tax | 1 | (172 |) 3 | (205 |
| Comprehensive income | \$13,546 | \$ 64,846 | \$30,926 | \$ 81,765 |
| Earnings per share – basic: | | | | |
| From continuing operations | \$0.49 | \$ 0.26 | \$1.10 | \$ 0.63 |
| From discontinued operations | \$— | \$ 1.81 | \$— | \$ 1.91 |
| Earnings per share – basic | \$0.49 | \$ 2.07 | \$1.10 | \$ 2.54 |
| Earnings per share – diluted: | | | | |
| From continuing operations | \$0.48 | \$ 0.25 | \$1.09 | \$ 0.63 |
| From discontinued operations | \$— | \$ 1.81 | \$— | \$ 1.89 |
| Earnings per share – diluted | \$0.48 | \$ 2.06 | \$1.09 | \$ 2.52 |
| Weighted average shares outstanding – basic | 27,811 | 31,347 | 28,072 | 32,267 |
| Weighted average shares outstanding – diluted | 28,132 | 31,553 | 28,318 | 32,495 |
| Dividends declared per share | \$0.11 | \$ 0.10 | \$0.33 | \$ 0.30 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS)

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$1,246 | \$1,238 |
| Trade receivables, net of allowances of \$2,796 and \$2,040, respectively | 216,078 | 204,710 |
| Income tax refund receivable | 2,214 | 3,311 |
| Deferred tax assets, net | 4,651 | 4,980 |
| Prepaid expenses and other current assets | 9,674 | 10,170 |
| Total current assets | 233,863 | 224,409 |
| Fixed assets, net | 37,863 | 35,330 |
| Other assets, net | 28,117 | 30,349 |
| Deferred tax assets, net | 22,310 | 22,855 |
| Intangible assets, net | 4,436 | 5,011 |
| Goodwill | 45,968 | 45,968 |
| Total assets | \$372,557 | \$363,922 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and other accrued liabilities | \$38,932 | \$38,104 |
| Accrued payroll costs | 63,839 | 52,208 |
| Other current liabilities | 669 | 986 |
| Income taxes payable | 5,606 | 2,885 |
| Total current liabilities | 109,046 | 94,183 |
| Long-term debt – credit facility | 80,893 | 93,333 |
| Long-term debt – other | 496 | 562 |
| Other long-term liabilities | 40,053 | 36,456 |
| Total liabilities | 230,488 | 224,534 |
| Commitments and contingencies (see Note C) | | |
| Stockholders' Equity: | | |
| Preferred stock, \$0.01 par; 15,000 shares authorized, none issued and outstanding | — | — |
| Common stock, \$0.01 par; 250,000 shares authorized, 70,535 and 70,029 issued, respectively | 705 | 700 |
| Additional paid-in capital | 418,335 | 412,642 |
| Accumulated other comprehensive loss | (368 |) (371 |
| Retained earnings | 146,633 | 125,378 |
| Treasury stock, at cost; 41,620 and 40,616 shares, respectively | (423,236 |) (398,961 |
| Total stockholders' equity | 142,069 | 139,388 |
| Total liabilities and stockholders' equity | \$372,557 | \$363,922 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS
 OF CHANGES IN STOCKHOLDERS' EQUITY
 (IN THOUSANDS)

| | Nine Months Ended September 30, 2015 | |
|---|--|---|
| Common stock – shares: | | |
| Shares at beginning of period | 70,029 | |
| Issuance for stock-based compensation and dividends, net of forfeitures | 474 | |
| Exercise of stock options | 32 | |
| Shares at end of period | 70,535 | |
| Common stock – par value: | | |
| Balance at beginning of period | \$700 | |
| Issuance for stock-based compensation and dividends, net of forfeitures | 5 | |
| Exercise of stock options | 0 | |
| Balance at end of period | \$705 | |
| Additional paid-in capital: | | |
| Balance at beginning of period | \$412,642 | |
| Issuance for stock-based compensation and dividends, net of forfeitures | 401 | |
| Exercise of stock options | 381 | |
| Income tax benefit from stock-based compensation | 408 | |
| Stock-based compensation expense | 4,261 | |
| Employee stock purchase plan | 242 | |
| Balance at end of period | \$418,335 | |
| Accumulated other comprehensive (loss) income: | | |
| Balance at beginning of period | \$(371 |) |
| Pension plans, net of tax | 3 | |
| Balance at end of period | \$(368 |) |
| Retained earnings: | | |
| Balance at beginning of period | \$125,378 | |
| Net income | 30,923 | |
| Dividends, net of forfeitures (\$0.33 per share) | (9,668 |) |
| Balance at end of period | \$146,633 | |
| Treasury stock – shares: | | |
| Shares at beginning of period | 40,616 | |
| Repurchases of common stock | 1,024 | |
| Employee stock purchase plan | (20 |) |
| Shares at end of period | 41,620 | |
| Treasury stock – cost: | | |
| Balance at beginning of period | \$(398,961 |) |
| Repurchases of common stock | (24,468 |) |
| Employee stock purchase plan | 193 | |
| Balance at end of period | \$(423,236 |) |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED
 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)

| | Nine Months Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2015 | September 30, 2014 |
| Cash flows from operating activities: | | |
| Net income | \$30,923 | \$81,970 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Gain on sale of discontinued operations | — | (64,619) |
| Deferred income tax provision, net | 874 | 1,428 |
| Provision for bad debts on accounts receivable | 1,861 | 1,080 |
| Depreciation and amortization | 7,411 | 7,541 |
| Stock-based compensation expense | 4,261 | 2,084 |
| Pension and post-retirement benefit plans expense | 1,395 | 990 |
| Amortization of deferred financing costs | 90 | 79 |
| Excess tax benefit attributable to stock-based compensation | (408) | (128) |
| Loss on deferred compensation plan investments, net | 192 | 195 |
| Gain from Company-owned life insurance proceeds | — | (849) |
| Contingent consideration liability remeasurement | 524 | — |
| Other | 172 | (186) |
| (Increase) decrease in operating assets | | |
| Trade receivables, net | (13,229) | (38,303) |
| Income tax refund receivable | 1,097 | 7,681 |
| Prepaid expenses and other current assets | 496 | 66 |
| Other assets, net | (322) | (42) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable and other current liabilities | 1,872 | 4,854 |
| Accrued payroll costs | 12,067 | 6,674 |
| Income taxes payable | 3,129 | (4,671) |
| Other long-term liabilities | 2,751 | (2,135) |
| Cash provided by operating activities | 55,156 | 3,709 |
| Cash flows from investing activities: | | |
| Proceeds from disposition of business | — | 117,887 |
| Capital expenditures | (7,731) | (4,787) |
| Proceeds from the disposition of assets held within the Rabbi Trust | 445 | 2,330 |
| Purchase of assets held within the Rabbi Trust | (481) | (2,156) |
| Proceeds from Company-owned life insurance | — | 1,037 |
| Other | — | 1 |
| Cash (used in) provided by investing activities | (7,767) | 114,312 |
| Cash flows from financing activities: | | |
| Proceeds from bank line of credit | 443,195 | 444,846 |
| Payments on bank line of credit | (455,635) | (494,778) |
| Payments of capital expenditure financing | (956) | (878) |
| Short-term vendor financing | (630) | 146 |
| Proceeds from exercise of stock options, net of shares tendered in payment of exercise | 381 | 949 |
| Excess tax benefit attributable to stock-based compensation | 408 | 128 |
| Payment of loan financing fees | — | (35) |
| Repurchases of common stock | (24,883) | (58,550) |

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| | | | |
|--|---------|------------|---|
| Cash dividend | (9,261 |) (9,607 |) |
| Cash used in financing activities | (47,381 |) (117,779 |) |
| Change in cash and cash equivalents | 8 | 242 | |
| Cash and cash equivalents at beginning of period | 1,238 | 875 | |
| Cash and cash equivalents at end of period | \$1,246 | \$1,117 | |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies

Unless otherwise noted below, there have been no material changes to the accounting policies presented in Note 1 - "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of the 2014 Annual Report on Form 10-K.

Organization and Nature of Operations

Kforce Inc. and its subsidiaries (collectively, "Kforce") provide professional staffing services and solutions to customers in the following segments: Technology ("Tech"), Finance and Accounting ("FA"), and Government Solutions ("GS"). Kforce provides flexible staffing services and solutions on both a temporary and full-time basis. Kforce operates through its corporate headquarters in Tampa, Florida and 63 field offices located throughout the United States. Additionally, one of our subsidiaries, Kforce Global Solutions, Inc. ("Global"), provides information technology outsourcing services internationally through an office in Manila, Philippines. Our international operations comprised less than 2% of net service revenues for both the three and nine months ended September 30, 2015 and 2014 and are included in our Tech segment.

Kforce serves clients from the Fortune 1000, the Federal Government, state and local governments, local and regional companies and small to mid-sized companies.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC regarding interim financial reporting. Accordingly, certain information and footnotes normally required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements have been condensed or omitted pursuant to those rules and regulations, although Kforce believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2014 Annual Report on Form 10-K. In management's opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of our Unaudited Condensed Consolidated Balance Sheet as of September 30, 2015, our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2015 and our Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015. The Unaudited Condensed Consolidated Balance Sheet as of December 31, 2014 was derived from our audited Consolidated Balance Sheet as of December 31, 2014, as presented in our 2014 Annual Report on Form 10-K.

Certain prior year amounts have been reclassified in the Unaudited Condensed Consolidated Statements of Cash Flows to conform to the current year presentation.

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers' businesses. In addition, we experience an increase in direct costs of services and a corresponding decrease in gross profit in the first fiscal quarter of each year as a result of certain U.S. state and federal employment tax resets. Thus, the results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for a full year.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Kforce Inc. and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. References in this document to "the Registrant," "Kforce," "the Company," "we," "the Firm," "our" or "us" refer to Kforce Inc. and its subsidiaries except where the context indicates otherwise.

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most important of these estimates and assumptions relate to the following: allowance for doubtful accounts, fallouts and other accounts receivable reserves; accounting for goodwill and identifiable intangible assets; self-insured liabilities for workers' compensation and health insurance; stock-based compensation; obligations for pension plans; accounting for income taxes and expected annual commission rates. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Health Insurance

Except for certain fully insured health insurance lines of coverage, Kforce retains the risk of loss for each health insurance plan participant up to \$300 thousand in claims annually. Additionally, for all claim amounts exceeding \$300 thousand, Kforce retains the risk of loss up to an aggregate annual loss of those claims of \$450 thousand. For its partially self-insured lines of coverage, health insurance costs are accrued using estimates to approximate the liability for reported claims and incurred but not reported ("IBNR") claims, which are primarily based upon an evaluation of historical claims experience, actuarially-determined completion factors and a qualitative review of our health insurance exposure including the extent of outstanding claims and expected changes in health insurance costs.

Earnings per Share

Basic earnings per share is computed as earnings divided by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding excludes unvested shares of restricted stock. Diluted earnings per common share is computed by dividing the earnings attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period plus the dilutive effect of stock options and other potentially dilutive securities such as unvested shares of restricted stock using the treasury stock method, except where the effect of including potential common shares would be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Income from continuing operations | \$13,545 | \$7,995 | \$30,923 | \$20,337 |
| Income from discontinued operations, net of tax | — | 57,023 | — | 61,633 |
| Net income | \$13,545 | \$65,018 | \$30,923 | \$81,970 |
| Denominator: | | | | |
| Weighted average shares outstanding – basic | 27,811 | 31,347 | 28,072 | 32,267 |
| Common stock equivalents | 321 | 206 | 246 | 228 |
| Weighted average shares outstanding – diluted | 28,132 | 31,553 | 28,318 | 32,495 |
| Earnings per share – basic: | | | | |
| From continuing operations | \$0.49 | \$0.26 | \$1.10 | \$0.63 |
| From discontinued operations | — | 1.81 | — | 1.91 |
| Earnings per share – basic | \$0.49 | \$2.07 | \$1.10 | \$2.54 |
| Earnings per share – diluted: | | | | |
| From continuing operations | \$0.48 | \$0.25 | \$1.09 | \$0.63 |
| From discontinued operations | — | 1.81 | — | 1.89 |
| Earnings per share – diluted | \$0.48 | \$2.06 | \$1.09 | \$2.52 |

For both the three and nine months ended September 30, 2015 and 2014, there were inconsequential common stock equivalents excluded from the weighted average diluted common shares based on the fact that their inclusion would have had an anti-dilutive effect on earnings per share.

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Dividends

Kforce's Board of Directors ("Board") may, at its discretion, declare and pay dividends on the outstanding shares of Kforce's common stock out of retained earnings, subject to statutory requirements. Dividends for any outstanding and unvested restricted stock as of the record date are awarded in the form of additional shares of forfeitable restricted stock, at the same rate as the cash dividend on common stock and based on the closing stock price on the record date. Such additional shares have the same vesting terms and conditions as the outstanding and unvested restricted stock. The following summarizes the dividends declared for the three and nine months ended September 30, 2015 and 2014:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|--------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Dividends declared per share | \$0.11 | \$0.10 | \$0.33 | \$0.30 |

On October 30, 2015, the Board declared an increase to the cash dividend bringing the upcoming quarterly dividend to \$0.12 per share of common stock. Kforce currently expects to continue to declare and pay quarterly dividends of a similar amount. However, the declaration and payment of future dividends are discretionary and will be subject to determination by our Board each quarter following its review of, among other things, our financial performance and our legal ability to pay dividends.

New Accounting Standards

In April 2015, the FASB issued authoritative guidance regarding a customer's accounting for fees paid in a cloud computing arrangement. This guidance is to be applied for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and early adoption is permitted. Kforce elected not to adopt this standard early. Kforce does not anticipate a material impact to the consolidated financial statements upon adoption.

In April 2015, the FASB issued authoritative guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the debt liability, similar to debt discounts. The guidance is to be applied for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, and early adoption is permitted. Kforce elected not to adopt this standard early. Kforce does not anticipate a material impact to the consolidated financial statements upon adoption.

In May 2014, the FASB issued authoritative guidance regarding revenue from contracts with customers, which specifies that revenue should be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued authoritative guidance deferring the effective date of the new revenue standard by one year for all entities. The one year deferral results in the guidance being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and entities are not permitted to adopt the standard earlier than the original effective date. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We have not yet selected a transition method. We do not currently anticipate a material impact to the consolidated financial statements upon adoption; however, we do anticipate an increase in the level of disclosure around revenue.

Note B - Discontinued Operations

Effective August 3, 2014, Kforce sold to RCM Acquisition, Inc. (the "Purchaser"), under a Stock Purchase Agreement (the "SPA") dated August 4, 2014, all of the issued and outstanding stock of Kforce Healthcare, Inc. ("KHI"), a wholly-owned subsidiary of Kforce Inc. and operator of the former Health Information Management ("HIM") reporting segment, for a total cash purchase price of \$119.0 million plus a post-closing working capital adjustment of \$96 thousand.

In connection with the sale, Kforce entered into a Transition Services Agreement (the "TSA") with the Purchaser to provide certain post-closing transitional services for a period not to exceed 12 months. Services provided by Kforce under the TSA ceased during the three months ended September 30, 2015. The fees for the services under the TSA were generally equivalent to Kforce's cost.

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In accordance with and defined within the SPA, Kforce was obligated to indemnify the Purchaser for certain losses, as defined, in excess of \$1.19 million, although this deductible does not apply to certain specified losses. Kforce's obligations under the indemnification provisions of the SPA, with the exception of certain items, ceased 12 months from the closing date and were limited to an aggregate of \$8.925 million, although these time and monetary caps do not apply to certain specified losses. While it cannot be certain, Kforce believes any material exposure under the indemnification provisions is remote, particularly given that the 12 month time period for general indemnification claims has now passed and, as a result, Kforce has not recorded a liability as of September 30, 2015.

The total financial results of HIM have been presented as discontinued operations in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income. The following summarizes the revenues and pretax profits of HIM for the three and nine months ended September 30, 2014 (in thousands):

| | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
|--|--|---|
| Net service revenues | \$8,723 | \$56,670 |
| Income from discontinued operations, before income taxes | \$95,917 | \$103,512 |

For the three and nine months ended September 30, 2014, the income from discontinued operations included a gain, net of transaction costs, on the sale of HIM of \$94.3 million pretax, or \$56.1 million after tax. The transaction costs primarily included legal fees, stock-based compensation related to the acceleration of restricted stock, commissions and transaction bonuses in the form of cash and common stock, which, in the aggregate, totaled \$11.0 million.

Stock-based compensation related to acceleration of restricted stock and transaction bonuses paid in stock in lieu of cash was \$2.4 million for the three and nine months ended September 30, 2014.

Note C - Commitments and Contingencies

Litigation

We are involved in legal proceedings, claims, and administrative matters that arise in the ordinary course of our business. We have made accruals with respect to certain of these matters, where appropriate, that are reflected in our unaudited condensed consolidated financial statements but are not, individually or in the aggregate, considered material. For other matters for which an accrual has not been made, we have not yet determined that a loss is probable or the amount of loss cannot be reasonably estimated. While the ultimate outcome of the matters cannot be determined, we currently do not expect that these proceedings and claims, individually or in the aggregate, will have a material effect on our unaudited condensed consolidated financial position, results of operations, or cash flows. The outcome of any litigation is inherently uncertain, however, and if decided adversely to us, or if we determine that settlement of particular litigation is appropriate, we may be subject to liability that could have a material adverse effect on our unaudited condensed consolidated financial position, results of operations, or cash flows. Kforce maintains liability insurance in such amounts and with such coverage and deductibles as management believes is reasonable. The principal liability risks that Kforce insures against are workers' compensation, personal injury, bodily injury, property damage, directors' and officers' liability, errors and omissions, employment practices liability and fidelity losses. There can be no assurance that Kforce's liability insurance will cover all events or that the limits of coverage will be sufficient to fully cover all liabilities.

Employment Agreements

Kforce has entered into employment agreements with certain executives that provide for minimum compensation, salary and continuation of certain benefits for a six-month to a three-year period after their employment ends under certain circumstances. Certain of the agreements also provide for a severance payment of one to three times annual salary and one-half to three times average annual bonus if such an agreement is terminated without good cause by Kforce or for good reason by the executive. These agreements contain certain post-employment restrictive covenants. Kforce's liability at September 30, 2015 would be approximately \$41.2 million if, following a change in control, all of the executives under contract were terminated without good cause by the employer or if the executives resigned for good reason and \$19.2 million if, in the absence of a change in control, all of the executives under contract were terminated by Kforce without good cause or if the executives resigned for good reason.

Kforce has not recorded any liability related to the employment agreements as no events have occurred that would require payment under the agreements.

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Note D - Employee Benefit Plans

Foreign Pension Plan

Kforce maintains a foreign defined benefit pension plan (the “Foreign Pension Plan”) for eligible employees of the Philippine branch of Global that is required by Philippine labor laws. The Foreign Pension Plan defines retirement as those employees who have attained the age of 60 and have completed at least five years of credited service. Benefits payable under the Foreign Pension Plan equate to one-half month’s salary for each year of credited service. Benefits under the Foreign Pension Plan are paid out as a lump sum to eligible employees at retirement.

For the three and nine months ended September 30, 2015, net periodic benefit cost was \$64 thousand and \$196 thousand, respectively. For the three and nine months ended September 30, 2014, net periodic benefit cost was \$68 thousand and \$199 thousand, respectively. The net periodic benefit cost recognized for the three and nine months ended September 30, 2015 was based upon the actuarial valuation as of the beginning of the year, which utilized the assumptions noted in our 2014 Annual Report on Form 10-K.

As of September 30, 2015 and December 31, 2014, the projected benefit obligation associated with our Foreign Pension Plan was \$1.8 million and \$1.6 million, respectively, which is classified in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. There is no requirement for Kforce to fund the Foreign Pension Plan and, as a result, no contributions were made to the Foreign Pension Plan during the nine months ended September 30, 2015. Kforce does not currently anticipate funding the Foreign Pension Plan during the year ending December 31, 2015.

Supplemental Executive Retirement Plan

Kforce maintains a Supplemental Executive Retirement Plan (the “SERP”) for the benefit of certain executive officers. The primary goals of the SERP are to create an additional wealth accumulation opportunity, restore lost qualified pension benefits due to government limitations and retain our covered executive officers. The SERP is a non-qualified benefit plan and does not include elective deferrals of covered executive officers’ compensation.

Normal retirement age under the SERP is defined as age 65; however, certain conditions allow for early retirement as early as age 55 or upon a change in control. Vesting under the plan is defined as 100% upon a participant’s attainment of age 55 and 10 years of service and 0% prior to a participant’s attainment of age 55 and 10 years of service. Full vesting also occurs if a participant with five years or more of service is involuntarily terminated by Kforce without cause or upon death, disability or a change in control. The SERP will be funded entirely by Kforce, and benefits are taxable to the covered executive officer upon receipt and deductible by Kforce when paid. Benefits payable under the SERP upon the occurrence of a qualifying distribution event, as defined, are targeted at 45% of the covered executive officers’ average salary and bonus, as defined, from the three years in which the covered executive officer earned the highest salary and bonus during the last 10 years of employment, which is subject to adjustment for retirement prior to the normal retirement age and the participant’s vesting percentage. The benefits under the SERP are reduced for a participant that has not reached age 62 with 10 years of service or age 55 with 25 years of service with a percentage reduction up to the normal retirement age.

Benefits under the SERP are normally paid based on the lump sum present value but may be paid over the life of the covered executive officer or as a 10-year annuity, as elected by the covered executive officer upon commencement of participation in the SERP. None of the benefits earned pursuant to the SERP are attributable to services provided prior to the effective date of the plan. For purposes of the measurement of the benefit obligation, Kforce has assumed that all participants will elect to take the lump sum present value option, based on historical trends.

The following represents the components of net periodic benefit cost for the three and nine months ended September 30, 2015 and 2014 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---------------------------|--------------------|-------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$330 | \$291 | \$990 | \$873 |
| Interest cost | 96 | 74 | 288 | 221 |
| Net periodic benefit cost | \$426 | \$365 | \$1,278 | \$1,094 |

The net periodic benefit cost recognized for the three and nine months ended September 30, 2015 was based upon the actuarial valuation as of the beginning of the year, which utilized the assumptions noted in our 2014 Annual Report on Form 10-K.

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The present value of the projected benefit obligation as of September 30, 2015 and December 31, 2014 was \$11.5 million and \$10.2 million, respectively, and is recorded in Other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. There is no requirement for Kforce to fund the SERP and, as a result, no contributions were made to the SERP during the nine months ended September 30, 2015. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2015.

Supplemental Executive Retirement Health Plan

Kforce maintained a Supplemental Executive Retirement Health Plan ("SERHP") to provide post-retirement health and welfare benefits to certain executives. The vesting and eligibility requirements mirrored that of the SERP, and no advance funding was required by Kforce or the participants. Consistent with the SERP, none of the benefits earned were attributable to services provided prior to the effective date of the plan.

During the nine months ended September 30, 2014, Kforce terminated the Company's SERHP and settled all future benefit obligations by making lump sum payments totaling approximately \$3.9 million, which resulted in a net settlement loss of \$0.7 million recorded in Selling, general and administrative expenses in the corresponding Unaudited Condensed Consolidated Statement of Operations and Comprehensive Income. The termination effectively removed Kforce's related post-retirement benefit obligation.

The net periodic post-retirement benefit cost for the three and nine months ended September 30, 2014 was \$0.9 million and \$1.0 million, respectively.

As a result of the settlement with the remaining participants during September 2014, there was no accumulated post-retirement benefit obligation liability as of September 30, 2015 and December 31, 2014.

Note E - Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price) in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy and a framework which requires categorizing assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Level 1 inputs are unadjusted, quoted market prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets. Level 3 inputs include unobservable inputs that are supported by little, infrequent, or no market activity and reflect management's own assumptions about inputs used in pricing the asset or liability. The Company uses the following valuation techniques to measure fair value.

The underlying investments within Kforce's deferred compensation plan have included money market funds, which are held within the Rabbi Trust. These money market fund assets are measured on a recurring basis and are recorded at fair value based on each fund's quoted market value per share in an active market, which is considered a Level 1 input.

The carrying value of the outstanding borrowings under the credit facility approximates its fair value as it is based on a variable rate that changes based on market conditions. The inputs used to calculate the fair value of the credit facility are considered to be Level 2 inputs.

The contingent consideration liability, which is related to a non-significant acquisition of a business within our GS reporting segment in the fourth quarter of 2014, is measured on a recurring basis and is recorded at fair value, determined using the discounted cash flow method. The inputs used to calculate the fair value of the contingent consideration liability are considered to be Level 3 inputs due to the lack of relevant market activity and significant management judgment. An increase in future cash flows may result in a higher estimated fair value while a decrease in future cash flows may result in a lower estimated fair value of the contingent consideration liability. The remeasurements to fair value are recorded in Other expense, net within the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income. For the nine months ended September 30, 2015, \$0.5 million was recognized in Other expense, net due to the remeasurement of our contingent consideration liability. The contingent consideration liability is recorded in Other long-term liabilities within the Unaudited Condensed Consolidated Balance Sheet.

Certain assets, in specific circumstances, are measured at fair value on a non-recurring basis utilizing Level 3 inputs such as goodwill, other intangible assets, and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition would be applicable if one or more of these assets were determined to be impaired.

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There were no transfers into or out of Level 1, 2 or 3 assets or liabilities during the nine months ended September 30, 2015. The estimated fair values on Kforce's financial statements as of September 30, 2015 and December 31, 2014 were as follows (in thousands):

| Assets/(Liabilities) Measured at Fair Value: | Asset/(Liability) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|-------------------|--|---|---|
| As of September 30, 2015 | | | | |
| Recurring basis: | | | | |
| Contingent consideration liability | \$ (1,001) | \$ — | \$ — | \$ (1,001) |
| Money market funds | \$ 36 | \$ 36 | \$ — | \$ — |
| As of December 31, 2014 | | | | |
| Recurring basis: | | | | |
| Contingent consideration liability | \$ (477) | \$ — | \$ — | \$ (477) |

Note F - Stock Incentive Plans

On April 5, 2013, the shareholders approved the 2013 Stock Incentive Plan ("2013 Plan") and the aggregate number of shares of common stock that are subject to awards under the 2013 Plan, subject to adjustment upon a change in capitalization, is 4.0 million. On June 20, 2006, the shareholders approved the 2006 Stock Incentive Plan ("2006 Plan") and, as amended, the aggregate number of shares of common stock that are subject to awards under the 2006 Plan is 7.9 million.

The 2013 Plan and 2006 Plan allow for the issuance of stock options, stock appreciation rights, restricted stock and common stock, subject to share availability. Vesting of equity instruments is determined on a grant-by-grant basis. Options expire at the end of 10 years from the date of grant, and Kforce issues new shares upon exercise of options. The 2013 Plan terminates on April 5, 2023 and the 2006 Plan terminates on April 28, 2016. The Incentive Stock Option Plan expired in 2005.

During the three months ended September 30, 2015 and 2014, Kforce recognized total stock-based compensation expense of \$1.4 million and \$3.1 million, respectively. During the nine months ended September 30, 2015 and 2014, Kforce recognized total stock-based compensation expense of \$4.3 million and \$4.5 million, respectively. During the three months ended September 30, 2015 and 2014, Kforce recognized stock-based compensation expense from continuing operations of \$1.4 million and \$0.7 million, respectively. During the nine months ended September 30, 2015 and 2014, Kforce recognized stock-based compensation expense from continuing operations of \$4.3 million and \$2.1 million, respectively.

Stock Options

The following table presents the activity under each of the stock incentive plans discussed above for the nine months ended September 30, 2015 (in thousands, except per share amounts):

| | Incentive Stock Option Plan | 2006 Plan | Total | Weighted Average Exercise Price Per Share | Total Intrinsic Value of Options Exercised |
|--|-----------------------------|-----------|-------|---|--|
| Outstanding and Exercisable as of December 31, 2014 | 22 | 35 | 57 | \$11.69 | |
| Exercised | (22) | (10) | (32) | \$11.78 | \$359 |
| Outstanding and Exercisable as of September 30, 2015 | — | 25 | 25 | \$11.58 | |

No compensation expense was recorded during the nine months ended September 30, 2015 or 2014 as a result of the grant date fair value having been fully amortized as of December 31, 2009.

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Restricted Stock

Kforce's annual restricted stock grants made to executives and management are generally based on the extent by which annual long-term incentive performance goals, which are established by Kforce's Compensation Committee during the first quarter of the year of performance, have been met, as determined by the Compensation Committee. Additionally, Kforce, with the approval of the Compensation Committee, grants restricted stock in varying amounts as determined appropriate during the year to retain executives and management. Restricted stock granted during the nine months ended September 30, 2015 will vest over a period of between one to ten years, with equal vesting annually. During the three months ended March 31, 2014, the Firm modified all awards containing a performance-acceleration feature that were granted during the three months ended December 31, 2013, as follows: (1) eliminated the performance-acceleration feature and (2) changed the time-based vesting term to five years, with equal vesting annually. The total number of restricted shares impacted by this modification was 268 thousand, excluding already forfeited shares, and the number of employees impacted was 87. The total incremental compensation cost resulting from the modification was \$109 thousand, which will be amortized on a straight-line basis over the requisite service period of the modified awards.

Restricted stock contain the same voting rights as other common stock and are included in the number of shares of common stock issued and outstanding. Restricted stock contain the right to forfeitable dividends in the form of additional shares of restricted stock at the same rate as the cash dividend on common stock and containing the same vesting provisions as the underlying award. The following table presents the activity for the nine months ended September 30, 2015 (in thousands, except per share amounts):

| | Number of Restricted Stock | Weighted Average Grant Date Fair Value | Total Intrinsic Value of Restricted Stock Vested |
|--------------------------------------|----------------------------|--|--|
| Outstanding as of December 31, 2014 | 982 | \$18.55 | |
| Granted | 533 | \$23.92 | |
| Forfeited/Canceled | (59) | \$19.37 | |
| Vested | (145) | \$18.08 | \$3,484 |
| Outstanding as of September 30, 2015 | 1,311 | \$20.73 | |

The fair market value of restricted stock is determined based on the closing stock price of Kforce's common stock at the date of grant, and is amortized on a straight-line basis over the requisite service period. As of September 30, 2015, total unrecognized compensation expense related to restricted stock was \$19.5 million, which will be recognized over a weighted average remaining period of 4.5 years.

Note G - Goodwill and Intangible Assets

The following table sets forth the activity in goodwill and other intangible assets during the nine months ended September 30, 2015 (in thousands):

| | Goodwill | Intangible Assets, Net |
|-----------------------------------|----------|------------------------|
| Balance as of December 31, 2014 | \$45,968 | \$5,011 |
| Amortization of intangible assets | — | (575) |
| Balance as of September 30, 2015 | \$45,968 | \$4,436 |

As of September 30, 2015 and December 31, 2014, Intangible assets, net in the accompanying Unaudited Condensed Consolidated Balance Sheets consisted of \$2.2 million and \$2.8 million, respectively, of definite-lived intangible assets including customer relationships, customer contracts, technology and other and \$2.2 million of an indefinite-lived intangible asset including a trade name and trademark.

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As of September 30, 2015 and December 31, 2014, accumulated amortization for intangible assets was \$26.4 million and \$25.8 million, respectively. The following table presents the estimated amortization expense for intangibles over the next five years and thereafter (in thousands):

| | |
|-------------------|---------|
| Remainder of 2015 | \$ 192 |
| 2016 | 589 |
| 2017 | 341 |
| 2018 | 341 |
| 2019 | 330 |
| Thereafter | 402 |
| Total | \$2,195 |

Note H - Reportable Segments

Kforce's reportable segments are as follows: (1) Tech; (2) FA; and (3) GS. This determination is supported by, among other factors: the existence of individuals responsible for the operations of each segment and who also report directly to our chief operating decision maker ("CODM"), the nature of the segment's operations and information presented to the Board and our CODM. Kforce also reports Flexible billings and Direct Hire (formerly referred to as "Search") fees separately by segment, which has been incorporated into the table below. The following table has been updated to reflect the disposition of HIM. As described in Note B – "Discontinued Operations," all revenues and gross profit associated with the discontinued operations have been recorded within Income from discontinued operations, net of income taxes, in the Unaudited Condensed Consolidated Statement of Operations and Comprehensive Income. Historically, and for the three and nine months ended September 30, 2015 and 2014, Kforce has generated only sales and gross profit information on a segment basis. Substantially all operations and long-lived assets are located in the United States. We do not report total assets or income from continuing operations separately by segment as our operations are largely combined.

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The following table provides information concerning the operations of our segments for the three and nine months ended September 30, 2015 and 2014 (in thousands):

| | Technology | Finance and Accounting | Government Solutions | Total |
|--|------------|---------------------------|-------------------------|-----------|
| Three Months Ended September 30, 2015 | | | | |
| Net service revenues: | | | | |
| Flexible billings | \$226,381 | \$76,707 | \$24,351 | \$327,439 |
| Direct Hire fees | 5,732 | 8,404 | — | 14,136 |
| Total net service revenues | \$232,113 | \$85,111 | \$24,351 | \$341,575 |
| Gross profit | \$69,128 | \$31,710 | \$8,983 | \$109,821 |
| Operating expenses | | | | 87,209 |
| Income from continuing operations, before income taxes | | | | \$22,612 |
| 2014 | | | | |
| Net service revenues: | | | | |
| Flexible billings | \$212,269 | \$64,254 | \$24,787 | \$301,310 |
| Direct Hire fees | 5,374 | 7,126 | — | 12,500 |
| Total net service revenues | \$217,643 | \$71,380 | \$24,787 | \$313,810 |
| Gross profit | \$63,591 | \$26,425 | \$8,275 | \$98,291 |
| Operating expenses | | | | 84,950 |
| Income from continuing operations, before income taxes | | | | \$13,341 |
| Nine Months Ended September 30, 2015 | | | | |
| Net service revenues: | | | | |
| Flexible billings | \$660,692 | \$215,674 | \$74,515 | \$950,881 |
| Direct Hire fees | 17,224 | 23,434 | — | 40,658 |
| Total net service revenues | \$677,916 | \$239,108 | \$74,515 | \$991,539 |
| Gross profit | \$197,982 | \$87,229 | \$25,388 | \$310,599 |
| Operating expenses | | | | 259,023 |
| Income from continuing operations, before income taxes | | | | \$51,576 |
| 2014 | | | | |
| Net service revenues: | | | | |
| Flexible billings | \$610,897 | \$181,411 | \$71,504 | \$863,812 |
| Direct Hire fees | 14,418 | 20,362 | — | 34,780 |
| Total net service revenues | \$625,315 | \$201,773 | \$71,504 | \$898,592 |
| Gross profit | \$180,210 | \$73,793 | \$22,200 | \$276,203 |
| Operating expenses | | | | 242,634 |
| Income from continuing operations, before income taxes | | | | \$33,569 |

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Note I - Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

| | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Deferred compensation plan | \$22,541 | \$22,425 |
| Supplemental executive retirement plan | 11,476 | 10,197 |
| Other | 6,036 | 3,834 |
| | \$40,053 | \$36,456 |

Note J - Supplemental Cash Flow Information

Supplemental cash flow information is as follows for the nine months ended September 30, 2015 and 2014 (in thousands):

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2015 | 2014 |
| Cash paid during the period for: | | |
| Income taxes, net | \$15,592 | \$12,608 |
| Interest, net | \$1,234 | \$637 |
| Non-Cash Transaction Information: | | |
| Employee stock purchase plan | \$435 | \$550 |
| Equipment acquired under capital leases | \$553 | \$130 |
| Unsettled repurchases of common stock | \$1,011 | \$1,937 |
| Shares tendered in payment of the exercise price of stock options | \$— | \$84 |

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Kforce Inc., our operations, and our present business environment. This MD&A should be read in conjunction with Item 1. Financial Statements of this report on Form 10-Q.

This overview summarizes the MD&A, which includes the following sections:

• **Executive Summary** – an executive summary of our results of operations for the nine months ended September 30, 2015.

• **Critical Accounting Estimates** – a discussion of the accounting estimates that are most critical to aid in fully understanding and evaluating our reported financial results and that require management's most difficult, subjective or complex judgments.

• **Results of Operations** – an analysis of Kforce's unaudited condensed consolidated results of operations for the three and nine months ended September 30, 2015 and 2014, which have been presented in its unaudited condensed consolidated financial statements. In order to assist the reader in understanding our business as a whole, certain metrics are presented for each of our segments.

• **Liquidity and Capital Resources** – an analysis of cash flows, off-balance sheet arrangements, stock repurchases, contractual obligations and commitments and the impact of changes in interest rates on our business.

Effective August 3, 2014, Kforce divested its HIM segment through a sale of all of the issued and outstanding stock of KHI. See Note B – "Discontinued Operations" to the unaudited condensed consolidated financial statements for a more detailed discussion. The results presented in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2014 include activity relating to HIM as discontinued operations. Except as specifically noted, our discussions below exclude any activity related to HIM, which is addressed separately in the discussion of income from discontinued operations, net of income taxes.

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EXECUTIVE SUMMARY

The following is an executive summary of what Kforce believes are highlights as of and for the nine months ended September 30, 2015, which should be considered in the context of the additional discussions herein and in conjunction with the unaudited condensed consolidated financial statements and notes thereto.

• Net service revenues for the nine months ended September 30, 2015 increased 10.3% to \$991.5 million from \$898.6 million in the comparable period in 2014.

• Flex revenues for the nine months ended September 30, 2015 increased 10.1% to \$950.9 million from \$863.8 million in the comparable period in 2014.

• Direct Hire revenues for the nine months ended September 30, 2015 increased 16.9% to \$40.7 million from \$34.8 million in the comparable period in 2014.

Flex gross profit margin for the nine months ended September 30, 2015 increased 50 basis points to 28.4% from 27.9% in the comparable period in 2014. Flex gross profit margin increased 30 basis points for Tech, 10 basis points for FA and 310 basis points for GS.

• Selling, general and administrative ("SG&A") expenses as a percentage of revenues for the nine months ended September 30, 2015 decreased to 25.2% from 26.0% in the comparable period in 2014.

• Income from continuing operations of \$30.9 million for the nine months ended September 30, 2015 increased \$10.6 million compared with income from continuing operations of \$20.3 million in the comparable period in 2014.

Net income of \$30.9 million for the nine months ended September 30, 2015 decreased \$51.1 million from net income of \$82.0 million in the comparable period in 2014 due primarily to the gain on sale of HIM recorded in the third quarter of 2014.

• Diluted earnings per share from continuing operations for the nine months ended September 30, 2015 increased to \$1.09 from \$0.63 per share in the comparable period in 2014.

• During the nine months ended September 30, 2015, Kforce repurchased 983 thousand shares of common stock on the open market at a total cost of approximately \$23.5 million.

• The Firm declared and paid three quarterly dividends of \$0.11 per share during the nine months ended September 30, 2015, resulting in a payout in cash of \$9.3 million in total.

• The total amount outstanding under our credit facility decreased \$12.4 million to \$80.9 million as of September 30, 2015 as compared to \$93.3 million as of December 31, 2014.

Table of Contents**CRITICAL ACCOUNTING ESTIMATES**

Our unaudited condensed consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our unaudited condensed consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our unaudited condensed consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, estimates, assumptions and judgments to ensure that our unaudited condensed consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Please refer to Note 1 – “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates” in our 2014 Annual Report on Form 10-K for a more detailed discussion of our significant accounting policies and critical accounting estimates.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2015 and 2014

Net service revenues for the three and nine months ended September 30, 2015 were \$341.6 million and \$991.5 million, respectively, which represents an increase of 8.8% and 10.3%, respectively, over the comparable periods in 2014. The increase was composed of increases of 6.6% and 8.4% in our Tech segment (which represents 68.4% of total net service revenues for the nine months ended September 30, 2015), 19.2% and 18.5% in our FA segment (which represents 24.1% of total net service revenues for the nine months ended September 30, 2015) and a decrease of 1.8% and an increase of 4.2% in our GS segment (which represents 7.5% of total net service revenues for the nine months ended September 30, 2015) for the three and nine months ended September 30, 2015, over the comparable periods in 2014. Flex revenues increased 8.7% and 10.1% for the three and nine months ended September 30, 2015, over the comparable periods in 2014. Direct Hire revenues increased 13.1% and 16.9% for the three and nine months ended September 30, 2015, over the comparable periods in 2014.

Flex gross profit margin increased 70 basis points to 29.2% for the three months ended September 30, 2015, as compared to 28.5% for the comparable period in 2014, and increased 50 basis points to 28.4% for the nine months ended September 30, 2015, as compared to 27.9% for the comparable period in 2014. The increases are due primarily to an increase in the spread between our bill rates and pay rates in our Tech and FA segments, improved profitability from our GS segment, a reduction in benefit costs and a more favorable payroll tax environment as compared to 2014. SG&A expenses as a percentage of net service revenues were 24.6% and 25.2% for the three and nine months ended September 30, 2015, respectively, as compared to 26.2% and 26.0% for the comparable periods in 2014. The decrease in SG&A expenses as a percentage of net service revenues was driven by a decrease in compensation, commission, payroll taxes and benefit related costs. Kforce expects to continue to manage its SG&A costs diligently.

From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which continued to be positive during 2015, based on data published by the Bureau of Labor Statistics (“BLS”) and Staffing Industry Analysts (“SIA”). The unemployment rate was at 5.1% as of September 2015, and non-farm payroll expanded by approximately 501 thousand jobs in the period July through September 2015. The college-level unemployment rate, which we believe serves as a proxy for professional employment and is more closely aligned with the Firm’s business strategy and candidate profile, was at 2.5% in September 2015. Kforce believes that uncertainty in the overall U.S. economic outlook related to the political landscape and geo-political risk as well as the expanding regulatory requirements, including those around employee classification, will continue to fuel growth in temporary staffing. The penetration rate (the percentage of temporary staffing to total employment) in September 2015 remained near record levels at 2.04%. Given the near record levels of the penetration rate, we believe that our Flex revenues can grow significantly even in a relatively modest growth macro-economic environment. Kforce remains optimistic about the growth prospects of the temporary staffing industry, the penetration rate, and in particular, our revenue portfolio.

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Over the last few years, we have undertaken several significant initiatives including: (1) executing a realignment plan to streamline our leadership and revenue-enabling personnel in an effort to better align a higher percentage of roles closer to the customer; (2) increasing our focus on consultant care processes and communications to redeploy our consultants in a timely fashion; (3) increasing revenue-generating headcount to capitalize on targeted growth opportunities; (4) further optimizing our NRC team in support of our field operations; (5) upgrading our corporate systems; (6) focusing on process improvements and (7) divesting of HIM, which we considered a non-core business. We believe our realigned field operations and revenue-enabling operations models provide a competitive advantage for us and are keys to our future growth and profitability. We also believe that our portfolio of service offerings, which are almost exclusively in the U.S. and are focused in key areas of expected growth in Tech and FA, are also a key contributor to our long-term financial stability. We believe the divestiture of HIM provides us the opportunity to further dedicate our resources to exclusively providing technology and finance and accounting talent in the commercial and government markets through our staffing organization and Kforce Government Solutions Inc., our government solutions provider.

Net Service Revenues. The following table sets forth, as a percentage of net service revenues, certain items in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2015 and 2014:

| | Three Months Ended September 30, 2015 | | 2014 | | Nine Months Ended September 30, 2015 | | 2014 | |
|--|---|---|-------|---|--|---|-------|---|
| Net Service Revenues by Segment: | | | | | | | | |
| Tech | 68.0 | % | 69.4 | % | 68.4 | % | 69.6 | % |
| FA | 24.9 | | 22.7 | | 24.1 | | 22.5 | |
| GS | 7.1 | | 7.9 | | 7.5 | | 7.9 | |
| Net service revenues | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Revenues by Type: | | | | | | | | |
| Flex | 95.9 | % | 96.0 | % | 95.9 | % | 96.1 | % |
| Direct Hire | 4.1 | | 4.0 | | 4.1 | | 3.9 | |
| Net service revenues | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Gross profit | 32.2 | % | 31.3 | % | 31.3 | % | 30.7 | % |
| Selling, general and administrative expenses | 24.6 | % | 26.2 | % | 25.2 | % | 26.0 | % |
| Depreciation and amortization | 0.8 | % | 0.8 | % | 0.7 | % | 0.8 | % |
| Income from continuing operations, before income taxes | 6.6 | % | 4.3 | % | 5.2 | % | 3.7 | % |
| Income from continuing operations | 4.0 | % | 2.5 | % | 3.1 | % | 2.3 | % |
| Net income | 4.0 | % | 20.7 | % | 3.1 | % | 9.1 | % |

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The following table details net service revenues for Flex and Direct Hire by segment and changes from the prior period for the three and nine months ended September 30 (in thousands):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------------------|----------------------------------|------------------------|-------------|---------------------------------|------------------------|-------------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | | | | | | |
| Flex | \$226,381 | 6.6 | % \$212,269 | \$660,692 | 8.2 | % \$610,897 |
| Direct Hire | 5,732 | 6.7 | % 5,374 | 17,224 | 19.5 | % 14,418 |
| Total Tech | \$232,113 | 6.6 | % \$217,643 | \$677,916 | 8.4 | % \$625,315 |
| FA | | | | | | |
| Flex | \$76,707 | 19.4 | % \$64,254 | \$215,674 | 18.9 | % \$181,411 |
| Direct Hire | 8,404 | 17.9 | % 7,126 | 23,434 | 15.1 | % 20,362 |
| Total FA | \$85,111 | 19.2 | % \$71,380 | \$239,108 | 18.5 | % \$201,773 |
| GS | | | | | | |
| Flex | \$24,351 | (1.8) |)% \$24,787 | \$74,515 | 4.2 | % \$71,504 |
| Total GS | \$24,351 | (1.8) |)% \$24,787 | \$74,515 | 4.2 | % \$71,504 |
| Total Flex | \$327,439 | 8.7 | % \$301,310 | \$950,881 | 10.1 | % \$863,812 |
| Total Direct Hire | 14,136 | 13.1 | % 12,500 | 40,658 | 16.9 | % 34,780 |
| Total Net Service Revenues | \$341,575 | 8.8 | % \$313,810 | \$991,539 | 10.3 | % \$898,592 |

Flex Revenues. The primary drivers of Flex revenues are the number of consultant hours worked, the consultant bill rate per hour and, to a limited extent, the amount of billable expenses incurred by Kforce. Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our clients' businesses. For the three months ended September 30, 2015 and 2014, there were 64 billing days each.

Flex revenues for our largest segment, Tech, experienced growth during the three and nine months ended September 30, 2015 of 6.6% and 8.2% as compared to the same periods in 2014. The year-over-year growth rate in the third quarter of 2015 of 6.6% decelerated from 9.6% in the second quarter of 2015, which we believe is primarily attributable to declines in a few of our largest clients due to merger and acquisition activities and other client-specific business disruptions. A September 2015 report published by SIA provided an expectation that temporary technology staffing could experience growth of 6% for 2015 and an additional 6% in 2016, which we believe is due to the continuing use of temporary staffing as a solution during uncertain economic cycles, the increasing cost of employment driving the systemic use of temporary staffing, particularly in project-based work such as technology, and the increasing pace of change in areas like mobility, data security and others are increasing the demand for Tech talent. SIA also acknowledges that notable skill shortages in certain technology skill sets will continue, which we believe will result in strong future growth in our Tech segment. The Firm believes it is well-positioned to take advantage of this growth as a result of the expected increase in productivity, which normally comes with tenure, of the revenue-generating headcount added in the last few years. We are also expecting to accelerate the hiring of Tech Flex sales associates over the next several quarters to capture the market demand that exists in this space. We expect our Tech Flex revenues to increase on a year-over-year basis in the fourth quarter of 2015 though the rate of growth may further decelerate compared to the 6.6% for the third quarter of 2015.

Our FA segment experienced an increase of 19.4% and 18.9% in Flex revenues during the three and nine months ended September 30, 2015, as compared to the same periods in 2014. In its September 2015 update, SIA provided an expectation that finance and accounting staffing could experience growth of 10% in 2015 and an additional 6% in 2016. The Firm believes it is well-positioned to take advantage of this growth as a result of the expected increase in productivity, which normally comes with tenure, of the revenue-generating headcount added in the last few years. We expect our year-over-year growth in FA for the fourth quarter of 2015 to decelerate compared to the third quarter of 2015 though remain at high levels.

Our GS segment experienced a decrease of 1.8% and an increase of 4.2% in Flex revenues during the three and nine months ended September 30, 2015, as compared to the same periods in 2014. There remains continued uncertainty within this segment due to an increase in competition and the lowest price technically acceptable government procurement environment. We expect near-term revenues to be fairly stable.

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The following table details total Flex hours for our Tech and FA segments and percentage changes over the prior period for the three and nine months ended September 30 (in thousands):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------|----------------------------------|---------------------|-------|---------------------------------|---------------------|--------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | 3,332 | 9.2 % | 3,050 | 9,726 | 9.7 % | 8,867 |
| FA | 2,350 | 18.7 % | 1,980 | 6,564 | 17.6 % | 5,584 |
| Total hours | 5,682 | 13.0 % | 5,030 | 16,290 | 12.7 % | 14,451 |

As the GS segment primarily provides solutions-based services as compared to staffing services, Flex hours are not presented above.

The increase in Flex revenues for Tech for the three months ended September 30, 2015, compared to the same period in 2014, was \$14.1 million, composed of a \$19.4 million increase in volume, a \$4.8 million decrease in bill rate and a \$0.5 million decrease in billable expenses. The increase in Flex revenues for Tech for the nine months ended September 30, 2015, compared to the same period in 2014, was \$49.8 million, composed of a \$58.8 million increase in volume, an \$8.9 million decrease in bill rate and a \$0.1 million decrease in billable expenses. The increase in Flex revenues for FA for the three months ended September 30, 2015, compared to the same period in 2014, was \$12.5 million, composed of a \$12.0 million increase in volume and a \$0.5 million increase in bill rate. The increase in Flex revenues for FA for the nine months ended September 30, 2015, compared to the same period in 2014, was \$34.3 million, composed of a \$31.8 million increase in volume and a \$2.5 million increase in bill rate.

Billable expenses, which are included as a component of net services revenues, are primarily attributable to project-based work. The following table details total Flex billable expenses for each segment and percentage changes over the prior period for the three and nine months ended September 30 (in thousands):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------|----------------------------------|---------------------|---------|---------------------------------|---------------------|---------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | \$1,263 | (29.0)% | \$1,778 | \$4,388 | (2.1)% | \$4,480 |
| FA | 71 | (22.8)% | 92 | 212 | (12.0)% | 241 |
| GS | 76 | 35.7% | 56 | 302 | (6.5)% | 323 |
| Total billable expenses | \$1,410 | (26.8)% | \$1,926 | \$4,902 | (2.8)% | \$5,044 |

Direct Hire Fees. The primary drivers of Direct Hire fees are the number of placements and the average placement fee. Direct Hire fees also include conversion revenues (conversions occur when consultants initially assigned to a client on a temporary basis are later converted to a permanent placement). Our GS segment does not make permanent placements.

Direct Hire revenues increased 13.1% and 16.9% during the three and nine months ended September 30, 2015, as compared to the same periods in 2014.

Total placements for each segment and percentage changes over the prior period were as follows for the three and nine months ended September 30:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|------------------|----------------------------------|---------------------|------|---------------------------------|---------------------|-------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | 353 | 9.6 % | 322 | 1,072 | 20.7 % | 888 |
| FA | 656 | 21.7 % | 539 | 1,834 | 7.6 % | 1,704 |
| Total placements | 1,009 | 17.2 % | 861 | 2,906 | 12.1 % | 2,592 |

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The average fee per placement for each segment and percentage changes over the prior period were as follows for the three and nine months ended September 30:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------|----------------------------------|---------------------|----------|---------------------------------|---------------------|----------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | \$16,247 | (2.7)% | \$16,704 | \$16,072 | (1.0)% | \$16,242 |
| FA | 12,815 | (3.1)% | 13,219 | 12,780 | 6.9 % | 11,951 |
| Total average placement fee | \$14,015 | (3.5)% | \$14,522 | \$13,994 | 4.3 % | \$13,421 |

The increase in Direct Hire revenues for the three months ended September 30, 2015, compared to the same period in 2014, was \$1.6 million, composed of a \$2.1 million increase in volume and a \$0.5 million decrease in rate. The increase in Direct Hire revenues for the nine months ended September 30, 2015, compared to the same period in 2014, was \$5.9 million, composed of a \$4.2 million increase in volume and a \$1.7 million increase in rate.

Gross Profit. Gross profit on Flex billings is determined by deducting the direct cost of services (primarily flexible personnel payroll wages, payroll taxes, payroll-related insurance and certain fringe benefits, as well as subcontractor costs) from net Flex service revenues. In addition, consistent with industry practices, gross profit dollars from Direct Hire fees are equal to revenues, because there are generally no direct costs associated with such revenues.

The gross profit percentage for each segment and percentage changes over the prior period were as follows for the three and nine months ended September 30:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------|----------------------------------|---------------------|--------|---------------------------------|---------------------|--------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | 29.8 | % 2.1 | % 29.2 | % 29.2 | % 1.4 | % 28.8 |
| FA | 37.3 | % 0.8 | % 37.0 | % 36.5 | % (0.3)% | % 36.6 |
| GS | 36.9 | % 10.5 | % 33.4 | % 34.1 | % 10.0 | % 31.0 |
| Total gross profit percentage | 32.2 | % 2.9 | % 31.3 | % 31.3 | % 2.0 | % 30.7 |

Kforce also monitors the gross profit percentage as a percentage of Flex revenues, which is referred to as the Flex gross profit percentage. This provides management with helpful insight into the other drivers of total gross profit percentage such as changes in volume evidenced by changes in hours billed for Flex and changes in the spread between the bill rate and pay rate for Flex.

The following table presents, for each segment, the Flex gross profit percentage and percentage change over the prior period for the three and nine months ended September 30:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|------------------------------------|----------------------------------|---------------------|--------|---------------------------------|---------------------|--------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Tech | 28.0 | % 2.2 | % 27.4 | % 27.4 | % 1.1 | % 27.1 |
| FA | 30.4 | % 1.3 | % 30.0 | % 29.6 | % 0.3 | % 29.5 |
| GS | 36.9 | % 10.5 | % 33.4 | % 34.1 | % 10.0 | % 31.0 |
| Total Flex gross profit percentage | 29.2 | % 2.5 | % 28.5 | % 28.4 | % 1.8 | % 27.9 |

The increase in Flex gross profit for the three months ended September 30, 2015, compared to the same period in 2014, was \$9.9 million, composed of a \$7.5 million increase in volume and a \$2.4 million increase in rate. The increase in Flex gross profit for the nine months ended September 30, 2015, compared to the same period in 2014, was \$28.5 million, composed of a \$24.3 million increase in volume and a \$4.2 million increase in rate.

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During the three and nine months ended September 30, 2015, Flex gross profit percentage increased 70 basis points and 50 basis points as compared to the same periods in 2014, respectively. These increases were due primarily to an increase in the spread between our bill rates and pay rates in our Tech and FA segments, improved profitability from our GS segment, a reduction in benefit costs and a more favorable payroll tax environment as compared to 2014. A continued focus for Kforce is optimizing the spread between bill rates and pay rates by providing our associates with tools, economic knowledge and defined programs to drive improvement in the effectiveness of our pricing strategy around the staffing services we provide. We believe this strategy will serve to balance the desire for optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, our consultants and Kforce.

SG&A Expenses. For the three and nine months ended September 30, 2015, total commissions, compensation, payroll taxes, and benefit costs as a percentage of SG&A represented 84.5% and 84.0%, respectively, as compared to 85.5% and 85.3% for the comparable period in 2014. Commissions, certain revenue-generating bonuses and related payroll taxes and benefit costs are variable costs driven primarily by revenue and gross profit levels, and associate performance. Therefore, as gross profit levels change, these expenses would also generally be anticipated to change, but remain relatively consistent as a percentage of revenues.

The following table presents these components of SG&A along with an "other" caption, which includes bad debt expense, lease expense, professional fees, travel, telephone, computer and certain other expenses, as an absolute amount and as a percentage of total net service revenues for the three and nine months ended September 30 (in thousands):

| | 2015 | % of Revenues | 2014 | % of Revenues | |
|---|-----------|---------------|-------------|---------------|---|
| Three Months Ended September 30, | | | | | |
| Compensation, commissions, payroll taxes and benefits costs | \$71,145 | 20.8 | % \$70,175 | 22.4 | % |
| Other | 13,022 | 3.8 | % 11,915 | 3.8 | % |
| Total SG&A | \$84,167 | 24.6 | % \$82,090 | 26.2 | % |
| Nine Months Ended September 30, | | | | | |
| Compensation, commissions, payroll taxes and benefits costs | \$209,837 | 21.2 | % \$199,795 | 22.2 | % |
| Other | 39,877 | 4.0 | % 34,423 | 3.8 | % |
| Total SG&A | \$249,714 | 25.2 | % \$234,218 | 26.0 | % |

SG&A as a percentage of net service revenues decreased 160 and 80 basis points for the three and nine months ended September 30, 2015 as compared to the same period in 2014. These decreases were primarily attributable to the following:

For the three and nine months ended September 30, 2015, compensation, commissions, payroll taxes and benefits costs decreased 1.6% and 1.0%, respectively, of net service revenues, which was primarily a result of a reduction in salaries and wages, benefits costs and a decrease in commissions driven by improvements in associate productivity.

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Depreciation and Amortization. The following table presents depreciation and amortization expense and percentage changes over the prior period by major asset class for the three and nine months ended September 30 (in thousands):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------------|----------------------------------|------------------------|---------|---------------------------------|------------------------|---------|
| | 2015 | Increase (Decrease) | 2014 | 2015 | Increase (Decrease) | 2014 |
| Fixed asset depreciation | \$1,812 | 2.7 % | \$1,764 | \$5,027 | 6.8 % | \$4,705 |
| Capitalized software amortization | 576 | (20.0)% | 720 | 1,800 | (18.6)% | 2,211 |
| Intangible asset amortization | 191 | 20.9 % | 158 | 575 | 21.1 % | 475 |
| Total depreciation and amortization | \$2,579 | (2.4)% | \$2,642 | \$7,402 | 0.1 % | \$7,391 |

Other Expense, Net. Other expense, net was \$0.5 million and \$1.9 million for the three and nine months ended September 30, 2015 which consisted primarily of interest expense related to outstanding borrowings under our credit facility and \$0.5 million due to the remeasurement of our contingent consideration liability for the nine months ended September 30, 2015. Other expense, net was \$0.2 million and \$1.0 million for the three and nine months ended September 30, 2014 which consisted primarily of interest expense related to outstanding borrowings under our credit facility.

Income Tax Expense. Income tax expense as a percentage of income from continuing operations before income taxes (our “effective rate”) for the nine months ended September 30, 2015 and 2014 was 40.0% and 39.4%, respectively. There were no individual items during the nine months ended September 30, 2015 or 2014 that had a material impact on Kforce’s effective rate.

Income from Discontinued Operations, Net of Income Taxes. Discontinued operations include the consolidated income and expenses of HIM. During the three months ended September 30, 2014, Kforce completed the sale of HIM resulting in a pre-tax gain of \$94.3 million. Included in the determination of the pre-tax gain is approximately \$4.9 million of goodwill for HIM and transaction expenses totaling approximately \$11.0 million, which primarily included legal fees, stock-based compensation related to the acceleration of restricted stock due to change in control provisions, commissions and transaction bonuses. Income tax expense as a percentage of income from discontinued operations, before income taxes, for the nine months ended September 30, 2014 was 40.5%.

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Adjusted EBITDA and Adjusted EBITDA Per Share. "Adjusted EBITDA", a non-GAAP financial measure, is defined by Kforce as net income before income from discontinued operations, net of income taxes, non-cash impairment charges, interest, income taxes, depreciation and amortization and stock-based compensation expense. "Adjusted EBITDA Per Share" is Adjusted EBITDA divided by the number of diluted weighted average shares outstanding. Adjusted EBITDA and Adjusted EBITDA Per Share should not be considered a measure of financial performance under GAAP. Items excluded from Adjusted EBITDA and Adjusted EBITDA Per Share are significant components in understanding and assessing our past and future financial performance, and this presentation should not be construed as an inference by us that our future results will be unaffected by those items excluded from Adjusted EBITDA and Adjusted EBITDA Per Share. Adjusted EBITDA and Adjusted EBITDA Per Share are key measures used by management to evaluate our operations, including our ability to generate cash flows and, consequently, management believes they are useful information to investors. The measures should not be considered in isolation or as alternatives to net income, cash flows or other financial statement information presented in the unaudited condensed consolidated financial statements as indicators of financial performance or liquidity. The measure is not determined in accordance with GAAP and is thus susceptible to varying calculations. Also, Adjusted EBITDA and Adjusted EBITDA Per Share, as presented, may not be comparable to similarly titled measures of other companies.

Some of the items that are excluded also impacted certain balance sheet assets, resulting in all or a portion of an asset being written off without a corresponding recovery of cash, that may have previously been spent with respect to the asset. In addition, although we excluded amortization of stock-based compensation expense (which we expect to continue to incur in the future) because it is a non-cash expense, the associated stock issued may result in an increase in our outstanding shares of stock, which may result in the dilution of our stockholder ownership interest. We encourage you to evaluate these items and the potential risks of excluding such items when analyzing our financial position.

The following table presents Adjusted EBITDA and Adjusted EBITDA Per Share results and includes a reconciliation of Adjusted EBITDA to net income and Adjusted Earnings Per Share to earnings per share for the three and nine months ended September 30 (in thousands, except per share amounts):

| | 2015 | Per Share | 2014 | Per Share |
|--|----------|-----------|----------|-----------|
| Three Months Ended September 30, | | | | |
| Net income | \$13,545 | \$0.48 | \$65,018 | \$2.06 |
| Income from discontinued operations, net of income taxes | — | — | 57,023 | 1.81 |
| Income from continuing operations | \$13,545 | \$0.48 | \$7,995 | \$0.25 |
| Depreciation and amortization | 2,579 | 0.09 | 2,642 | 0.08 |
| Stock-based compensation expense | 1,348 | 0.05 | 671 | 0.02 |
| Interest expense and other | 458 | 0.02 | 258 | 0.01 |
| Income tax expense | 9,067 | 0.32 | 5,346 | 0.18 |
| Adjusted EBITDA | \$26,997 | \$0.96 | \$16,912 | \$0.54 |
| Weighted average shares outstanding - basic | 27,811 | | 31,347 | |
| Weighted average shares outstanding - diluted | 28,132 | | 31,553 | |
| Nine Months Ended September 30, | | | | |
| Net income | \$30,923 | \$1.09 | \$81,970 | \$2.52 |
| Income from discontinued operations, net of income taxes | — | — | 61,633 | 1.89 |
| Income from continuing operations | \$30,923 | \$1.09 | \$20,337 | \$0.63 |
| Depreciation and amortization | 7,402 | 0.26 | 7,391 | 0.23 |
| Stock-based compensation expense | 4,261 | 0.15 | 2,025 | 0.06 |
| Interest expense and other | 1,486 | 0.06 | 1,038 | 0.02 |
| Income tax expense | 20,653 | 0.73 | 13,232 | 0.41 |
| Adjusted EBITDA | \$64,725 | \$2.29 | \$44,023 | \$1.35 |
| Weighted average shares outstanding - basic | 28,072 | | 32,267 | |
| Weighted average shares outstanding - diluted | 28,318 | | 32,495 | |

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LIQUIDITY AND CAPITAL RESOURCES

To meet our capital and liquidity requirements, we primarily rely on operating cash flow, as well as borrowings under our existing credit facility. At September 30, 2015, Kforce had \$124.8 million in working capital compared to \$130.2 million at December 31, 2014. Kforce's current ratio (current assets divided by current liabilities) was 2.1 at September 30, 2015 and 2.4 at December 31, 2014.

The accompanying Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 provide a more detailed description of our cash flows. Currently, Kforce is principally focused on achieving the appropriate balance in the following areas of cash flow: (1) achieving positive cash flow from operating activities; (2) returning capital to our shareholders through our dividend and common stock repurchase programs; (3) maintaining an appropriate outstanding balance on our credit facility; (4) investing in our infrastructure to allow sustainable growth via capital expenditures; and (5) making strategic acquisitions.

We believe that existing cash and cash equivalents, cash flow from operations, and available borrowings under our credit facility will be adequate to meet the capital expenditure and working capital requirements of our operations for at least the next 12 months. However, significant deterioration in the economic environment or market conditions, among other things, could negatively impact operating results and liquidity, as well as the ability of our lenders to fund borrowings. There is no assurance that: (1) our lenders will be able to fund our borrowings or (2) if operations were to deteriorate and additional financing were to become necessary, we would be able to obtain financing in amounts sufficient to meet operating requirements or at terms which are satisfactory and which would allow us to remain competitive.

Actual results could also differ materially from those indicated as a result of a number of factors, including the use of currently available resources for possible acquisitions and possible additional stock repurchases.

The following table presents a summary of our net cash flows from operating, investing and financing activities for the nine months ended September 30, 2015 and 2014 (in thousands):

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------|
| | 2015 | 2014 |
| Cash provided by (used in): | | |
| Operating activities | \$55,156 | \$3,709 |
| Investing activities | (7,767) | 114,312 |
| Financing activities | (47,381) | (117,779) |
| Net increase in cash and cash equivalents | \$8 | \$242 |

Discontinued Operations

As was previously discussed, Kforce divested of HIM effective August 3, 2014. The accompanying Unaudited Condensed Consolidated Statements of Cash Flows have been presented on a combined basis (continuing operations and discontinued operations) for the nine months ended September 30, 2014. Cash flows provided by discontinued operations for all prior periods were provided by operating activities and were not material to the capital resources of Kforce. In addition, the absence of cash flows from discontinued operations is not expected to have a significant effect on the future liquidity, financial position, or capital resources of Kforce.

Operating Activities

The significant variations in cash provided by operating activities and net income are principally related to adjustments to net income for certain non-cash charges such as depreciation and amortization expense, and stock-based compensation expense. These adjustments are more fully detailed in our Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014. Our largest source of operating cash flows is the collection of trade receivables and our largest use of operating cash flows is the payment of our employee and consultant populations' compensation, which includes base salary, commissions and bonuses. When comparing cash flows from operating activities the increase in cash provided by operating activities during the nine months ended September 30, 2015 as compared to the same period in 2014 is a result of the timing of collections of accounts receivable and payment of our employee and consultant populations' compensation as well as growth in our net service revenues.

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Investing Activities

Capital expenditures for the nine months ended September 30, 2015 and 2014 were \$7.7 million and \$4.8 million, respectively, which excludes equipment acquired under capital leases.

We expect to continue to selectively invest in our infrastructure in order to support the expected future growth in our business. Kforce believes it has sufficient cash and availability under its credit facility to make any expected necessary capital expenditures in the foreseeable future. In addition, we continually review our portfolio of businesses and their operations in comparison to our internal strategic and performance objectives. As part of this review, we may acquire other businesses and further invest in, fully divest and/or sell parts of our current businesses.

Financing Activities

During the nine months ended September 30, 2015, the Firm paid cash for repurchases of common stock totaling \$24.9 million, which was composed of approximately \$23.9 million of open market common stock repurchases and \$1.0 million of common stock repurchases attributable to shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock awards. Of the \$23.9 million of open market common stock repurchases, \$1.4 million of the cash paid during the nine months ended September 30, 2015 related to the settlement of 2014 repurchases. Kforce currently expects to continue repurchasing common stock on the open market; however, the level of future repurchases may be impacted by changes in economic conditions or the level of our operating cash flows.

Kforce declared and paid three quarterly dividends of \$0.11 per share during the nine months ended September 30, 2015, resulting in a payout in cash of \$9.3 million. On October 30, 2015, the Board declared an increase to the cash dividend bringing the upcoming quarterly dividend to \$0.12 per share of common stock. Kforce currently expects to continue to declare and pay quarterly dividends of a similar amount. However, the declaration and payment of future dividends are discretionary and will be subject to determination by our Board each quarter following its review of, among other things, our financial performance and our legal ability to pay dividends.

Credit Facility

On September 20, 2011, Kforce entered into a Third Amended and Restated Credit Agreement, with a syndicate led by Bank of America, N.A. This was amended on March 30, 2012 through the execution of a Consent and First Amendment, on December 27, 2013 through the execution of a Second Amendment and Joinder, and further amended on December 23, 2014 through the execution of a Third Amendment (as amended to date, the "Credit Facility") resulting in a maximum borrowing capacity of \$170.0 million, as well as an accordion option of \$50.0 million. The maximum borrowings available to Kforce under the Credit Facility (exclusive of the accordion option) are limited to: (a) a revolving Credit Facility of up to \$170.0 million (the "Revolving Loan Amount") and (b) a \$15.0 million sub-limit included in the Credit Facility for letters of credit.

Available borrowings under the Credit Facility are limited to 85% of the net amount of eligible accounts receivable, plus 85% of the net amount of eligible unbilled accounts receivable, plus 80% of the net amount of eligible employee placement accounts, minus certain minimum availability reserves; provided, that the Firm may, subject to certain conditions, elect to increase the available borrowing limitation based on a percentage of the appraised fair market value of the Firm's corporate headquarters property and/or an additional percentage of net eligible accounts receivable, net eligible unbilled accounts receivable and net eligible employee placement accounts. Borrowings under the Credit Facility are secured by substantially all of the assets of the Firm, excluding the real estate located at the Firm's corporate headquarters in Tampa, Florida, unless the eligible real estate conditions are met. Outstanding borrowings under the Revolving Loan Amount bear interest at a rate of: (a) LIBOR plus an applicable margin based on various factors; or (b) the higher of: (1) the prime rate, (2) the federal funds rate plus 0.50% or (3) LIBOR plus 1.25%. Fluctuations in the ratio of unbilled to billed receivables could result in material changes to availability from time to time. Letters of credit issued under the Credit Facility require Kforce to pay a fronting fee equal to 0.125% of the amount of each letter of credit issued, plus a per annum fee equal to the applicable margin for LIBOR loans based on the total letters of credit outstanding. To the extent that Kforce has unused availability under the Credit Facility, an unused line fee is required to be paid on a monthly basis equal to (a) if the average daily aggregate revolver outstanding are less than 35% of the amount of the commitments, 0.35% or (b) if the average daily aggregate revolver outstanding are greater than 35% of the amount of the commitments, 0.25% times the amount by which the maximum

revolver amount exceeded the sum of the average daily aggregate revolver outstanding, during the immediately preceding month or shorter period if calculated for the first month hereafter or on the termination date.

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Under the Credit Facility, Kforce is subject to certain affirmative and negative covenants including (but not limited to) the maintenance of a fixed charge coverage ratio of at least 1.00 to 1.00 if the Firm's availability under the Credit Facility is less than the greater of 10% of the aggregate amount of the commitment of all of the lenders under the Credit Facility or \$11 million. Our ability to make distributions or repurchase equity securities could be limited if the Firm's availability is less than the greater of 12.5% of the aggregate amount of the commitment of all lenders under the Credit Facility or \$20.6 million. Kforce had availability under the Credit Facility of \$58.2 million as of September 30, 2015; therefore, the minimum fixed charge coverage ratio was not applicable and our ability to make distributions or repurchase equity securities was not restricted. Kforce believes that it will be able to maintain these minimum availability requirements; however, in the event that Kforce is unable to do so, Kforce could fail the fixed charge coverage ratio, which would constitute an event of default, and could limit our ability to make distributions or repurchase equity securities. Kforce believes the likelihood of default is remote. The Credit Facility expires December 23, 2019.

As of September 30, 2015, \$80.9 million was outstanding under the Credit Facility. During the three months ended September 30, 2015, maximum outstanding borrowings under the Credit Facility were \$92.2 million. As of October 30, 2015, \$80.8 million was outstanding and \$58.3 million was available under the Credit Facility.

Off-Balance Sheet Arrangements

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At September 30, 2015, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling \$3.1 million, and for facility lease deposits totaling \$0.5 million. Kforce does not have any additional off-balance sheet arrangements that have had, or are expected to have, a material effect on our unaudited condensed consolidated financial statements.

Stock Repurchases

As of December 31, 2014, \$29.7 million of the Board-authorized common stock repurchase program remained available for future repurchases. During the nine months ended September 30, 2015, Kforce repurchased approximately 983 thousand shares of common stock on the open market at a total cost of approximately \$23.5 million. As of September 30, 2015, \$66.2 million remained available for future repurchases. On July 31, 2015, the Board approved a \$60.0 million increase to the then remaining authorization amount.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In addition to the risks inherent in its operations, Kforce is exposed to certain market risks, primarily changes in interest rates. The sensitivity analysis presented below for our Credit Facility is based on a hypothetical 10% change in interest rates. This change is a hypothetical scenario and is used to calibrate potential risk and does not necessarily represent our view of future market changes.

As of September 30, 2015, we had \$80.9 million outstanding under our Credit Facility and our weighted average effective interest rate on our Credit Facility was 1.6%. A hypothetical 10% increase in interest rates in effect at September 30, 2015 would increase Kforce's annual interest expense by \$0.1 million.

We do not believe that we have a material exposure to fluctuations in foreign currencies because our international operations represented less than 2% of net service revenues for the nine months ended September 30, 2015, and because our international operations' functional currency is the U.S. Dollar. However, Kforce will continue to assess the impact that currency fluctuations could have on our operations going forward.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2015, we carried out an evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act (the "Evaluation") under the supervision and with the participation of our CEO and CFO, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15 and 15d-15 under the Exchange Act ("Disclosure Controls"). Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

Management has evaluated, with the participation of our CEO and CFO, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

Inherent Limitations of Internal Control Over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CEO and CFO Certifications

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This Item of this report, which you are currently reading, is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in legal proceedings, claims, and administrative matters that arise in the ordinary course of our business. We have made accruals with respect to certain of these matters, where appropriate, that are reflected in our unaudited condensed consolidated financial statements but are not, individually or in the aggregate, considered material. For other matters for which an accrual has not been made, we have not yet determined that a loss is probable or the amount of loss cannot be reasonably estimated. While the ultimate outcome of the matters cannot be determined, we currently do not expect that these proceedings and claims, individually or in the aggregate, will have a material effect on our unaudited condensed consolidated financial position, results of operations, or cash flows. The outcome of any litigation is inherently uncertain, however, and if decided adversely to us, or if we determine that settlement of particular litigation is appropriate, we may be subject to liability that could have a material adverse effect on our unaudited condensed consolidated financial position, results of operations, or cash flows. Kforce maintains liability insurance in such amounts and with such coverage and deductibles as management believes is reasonable. The principal liability risks that Kforce insures against are workers' compensation, personal injury, bodily injury, property damage, directors' and officers' liability, errors and omissions, employment practices liability and fidelity losses. There can be no assurance that Kforce's liability insurance will cover all events or that the limits of coverage will be sufficient to fully cover all liabilities.

Item 1A. Risk Factors.

There are no material changes in the risk factors previously disclosed in our 2014 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer

The following table presents information with respect to our repurchases of Kforce common stock during the three months ended September 30, 2015:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|---|--------------------------------------|------------------------------|--|--|
| July 1, 2015 to July 31, 2015 | — | \$ — | — | \$ 74,074,808 |
| August 1, 2015 to August 31, 2015 | 102,752 | \$ 26.61 | 89,676 | \$ 71,680,472 |
| September 1, 2015 to September 30, 2015 | 207,222 | \$ 26.45 | 207,222 | \$ 66,199,289 |
| Total | 309,974 | \$ 26.50 | 296,898 | \$ 66,199,289 |

(1) Includes 13,076 shares of stock received upon vesting of restricted stock to satisfy statutory minimum tax withholding requirements for the period August 1, 2015 through August 31, 2015.

(2) On July 31, 2015, the Board approved a \$60 million increase to the outstanding stock repurchase authorization.

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Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Amended and Restated Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 33-91738) filed with the SEC on May 9, 1996. |
| 3.1a | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-4/A (File No. 333-111566) filed with the SEC on February 9, 2004, as amended. |
| 3.1b | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-4/A (File No. 333-111566) filed with the SEC on February 9, 2004, as amended. |
| 3.1c | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-4/A (File No. 333-111566) filed with the SEC on February 9, 2004, as amended. |
| 3.1d | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on May 17, 2000. |
| 3.1e | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-26058) filed with the SEC on March 29, 2002. |
| 3.2 | Amended & Restated Bylaws, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on April 29, 2013. |
| 31.1 | Certification by the Chief Executive Officer of Kforce Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by the Chief Financial Officer of Kforce Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification by the Chief Executive Officer of Kforce Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by the Chief Financial Officer of Kforce Inc. pursuant to 18 U.S.C. Section 2350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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Part I, Item 1 of this Form 10-Q formatted in XBRL.

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SIGNATURES

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

Kforce Inc.
(Registrant)

Date: November 4, 2015

By: /s/ DAVID M. KELLY
David M. Kelly
Senior Vice President and Chief Financial
Officer
(Principal Financial Officer)

Date: November 4, 2015

By: /s/ JEFFREY B. HACKMAN
Jeffrey B. Hackman
Senior Vice President, Finance and
Accounting
(Principal Accounting Officer)