KFORCE INC
Form 10-K
February 26, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $0.01 par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2015, was approximately $574,771,356. For purposes of this determination, common stock held by each officer and director and by each person who owns 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock as of February 23, 2016 was 28,356,369.

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Parts Into Which Incorporated
Portions of Proxy Statement for the Annual Meeting of Shareholders scheduled to be held April 19, 2016 ("Proxy Statement")	Part III

Table of Contents

KFORCE INC.
ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015
TABLE OF CONTENTS

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 its subsidiaries, except where the context otherwise requires or indicates.

This report, particularly Item 1. Business, Item 1A. Risk Factors, and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), 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 talent, 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,” “estimate,” “assume,” “expect,” “intend,” “plan,” “believe,” “will,” “may,” “could,” “should” and variation 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.

Table of Contents

PART I

Item 1. Business.

Company Overview

We are a provider of professional and technical specialty staffing services and solutions and operate through our corporate headquarters in Tampa, Florida, 62 field offices located throughout the United States and one office in Manila, Philippines. Kforce was incorporated in 1994 but its predecessor companies, Romac & Associates, Inc. and Source Services Corporation have been providing staffing services since 1962. Kforce completed its Initial Public Offering in August 1995.

We provide our clients staffing services and solutions through three operating segments: Technology (“Tech”), Finance and Accounting (“FA”) and Government Solutions (“GS”). Our Tech segment includes the results of Kforce Global Solutions, Inc. (“Global”), a wholly-owned subsidiary, which has an office in the Philippines. The GS segment is organized and managed by specialty because of the unique operating characteristics of the business.

The following charts depict the percentage of our total revenues for each of our segments for the years ended December 31, 2015, 2014 and 2013 (the chart for 2013 and 2014 excludes our former Health Information Management ("HIM") segment, which we sold in 2014):

Tech

Our Tech segment provides both temporary staffing and permanent placement services to our clients, focusing primarily on areas of information technology such as systems/applications architecture and development, project management, enterprise data management, business intelligence, e-commerce, technology infrastructure, network architecture and security. Revenues for our Tech segment increased 6.3% to $895.9 million for the year ended December 31, 2015 as compared to $842.5 million for the year ended December 31, 2014. The average bill rate for our Tech segment for 2015 was approximately $67 per hour. Our Tech segment provides service to clients in a variety of industries with a strong footprint in the communications, financial services, insurance services and government sectors. A September 2015 report published by Staffing Industry Analysts (“SIA”) stated that temporary technology staffing is expected to experience growth of 6% in 2016 and should represent one of the highest growth sectors within staffing. We believe the primary drivers of this growth and the continuing use of temporary staffing as a solution during uncertain economic cycles are the increasingly strict regulatory environment and cost of employment, both of which are driving the systemic use of temporary staffing, particularly in project-based work such as technology, and the increasing demand for talent in areas like mobility, cloud-based computing and data security. SIA also acknowledges that notable skill shortages in certain technology skill sets will continue.

FA

Our FA segment provides both temporary staffing and permanent placement services to our clients in areas such as general accounting, business analysis, accounts payable, accounts receivable, financial analysis and reporting, taxation, budget preparation and analysis, mortgage and loan processing, cost analysis, professional administration, credit and collections, audit services, and systems and controls analysis and documentation. Our FA segment provides service to clients in a variety of industries with a strong footprint in the healthcare, financial services and government sectors. Revenues for our FA segment increased 17.7% to $325.9 million for the year ended December 31, 2015 as compared to $276.8 million for the year ended December 31, 2014. The average bill rate for our FA segment for 2015 was approximately $33 per hour. In its September 2015 update, SIA stated that finance and accounting staffing is expected to experience growth of 6% during 2016.

Table of Contents

GS

Our GS segment provides services and solutions to the Federal Government as both a prime contractor and a subcontractor in the fields of information technology and finance and accounting. The GS contracts are concentrated among customers that we believe are less likely to be impacted by sequestration threats and budget constraints, such as the U.S. Department of Veteran Affairs. GS offers integrated business solutions to its customers in areas such as: information technology, healthcare informatics, data and knowledge management, research and development, audit readiness, financial management and accounting, among other areas. Revenues for our GS segment decreased 0.7% to $97.4 million for the year ended December 31, 2015 as compared to $98.1 million for the year ended December 31, 2014. The services portion of our GS segment accounted for approximately 84% of its total revenues in 2015. Our GS segment also includes a product-based business specialized in manufacturing and delivering trauma-training manikins. The product portion of our GS segment accounted for approximately 16% of its total revenues in 2015. Substantially all GS services are supplied to the Federal Government through field offices located in the Washington, D.C. metropolitan area, San Antonio, Texas and Austin, Texas.

Types of Staffing Services

Kforce's staffing services consist of temporary staffing services ("Flex") and permanent placement services ("Direct Hire"). For each of the three years ended December 31, 2015, 2014 and 2013, Flex represented approximately 96% of total Kforce revenues, respectively.

We target clients and recruits for both Flex and Direct Hire services, which contributes to our objective of providing integrated solutions for all of our clients' human capital needs.

Flex

We provide our clients with qualified individuals ("consultants") on a temporary basis when it is determined that they have the appropriate skills and experience and are "the right match" for our clients. We recruit consultants from the job boards, Kforce.com, from social media networks and from passive candidate marketing, where we identify individuals who are currently employed and not actively seeking another position. These consultants can be directly employed by Kforce, independent contractors or foreign nationals sponsored by Kforce. Our success is dependent upon our internal employees' ("associates") ability to: (1) acknowledge, understand and participate in creating solutions for our clients' needs; (2) determine and understand the capabilities of the consultants being recruited; and (3) deliver and manage the client-consultant relationship to the satisfaction of both our clients and our consultants. We believe proper execution by our associates and our consultants directly impacts the longevity of the assignments, increases the likelihood of being able to generate repeat business with our clients and fosters a better experience for our consultants, which has a direct correlation to their redeployment.

Flex revenues are driven by the number of total hours billed and pre-established bill rates. Flex gross profit is determined by deducting consultant pay, benefits and other related costs from Flex revenues. Associate commissions, related taxes and other compensation and benefits, as well as field management compensation are included in selling, general and administrative expenses ("SG&A"), along with other customary costs such as administrative and corporate compensation. The Flex business model involves attempting to maximize the number of billable consultant hours and bill rates, while managing consultant pay rates and benefit costs, as well as compensation and benefits for our core associates. Flex revenues also includes revenues for our GS segment. These revenues involve providing longer-term contract services to the customer primarily on a time-and-materials basis.

Direct Hire

Our Direct Hire business (formerly referred to as "Search") is a significantly smaller, yet important, part of our business that involves locating qualified individuals ("candidates") for permanent placement with our clients. We primarily perform these searches on a contingency basis; thus, fees are only earned if the candidates are ultimately hired by our clients. The typical fee structure is based upon a percentage of the placed individual's annual compensation in their first year of employment, which is known or can be estimated at the time of placement. We recruit permanent employees using methods that are consistent with Flex. Also, there are occasions where consultants are initially assigned to a client on a Flex basis and later are converted to a permanent placement, for which we may also receive a fee (referred to as "conversion revenue").

4

Table of Contents

Direct Hire revenues are driven by placements made and the resulting fees billed and are recognized net of an allowance for “fallouts,” which occur when placements do not complete the applicable contingency period. Although the contingency period can vary by contract, it is typically 90 days or less. This allowance for fallouts is estimated based upon historical experience with Direct Hire placements that did not complete the contingency period. There are no consultant payroll costs associated with Direct Hire placements, thus, all Direct Hire revenues increase gross profit by the full amount of the fee. Direct Hire associate commissions, compensation and benefits are included in SG&A.

Business Strategy

Our primary goal is to enhance shareholder value by achieving above-market revenue growth in the segments in which we are focused as well as generating operating leverage. We believe the following strategies will help us achieve our goal.

Invest in Talent of Revenue Generators. Given the current and expected future demand in the marketplace for the services provided by Kforce and the expectation that enhanced productivity will result from an increasing mix of tenured associates, the Firm continues to focus on the hiring of associates that are responsible for generating revenue. The increase in revenue-generating talent from 2014 to 2015 was 9.5% and from 2013 to 2014 was 6.3%. New associates typically take six to twelve months to ramp to a minimum acceptable standard and this increase in productivity generally continues for up to four years. Our hiring focus over the last two years prior to the fourth quarter of 2015 has been disproportionately focused on delivery resources. In the fourth quarter of 2015, we accelerated growth in our Tech Flex sales talent and currently expect an appropriately balanced investment in talent to continue in 2016. We expect the investments in late 2015 and 2016 to result in re-accelerated revenue growth, particularly in Tech Flex, during 2016. Going forward, the Firm expects to continue to hire additional revenue generators in those lines of business, geographies and industries that we believe present the greatest opportunity.

Enhanced Customer Focus. During 2013, Kforce streamlined the Firm’s leadership and revenue enablers in an effort to align a higher percentage of roles closer to the customer, supporting our significant focus to provide more consistent and effective service to our clients and our consultants. The new alignment has resulted in a more significant focus on our revenue-generating activities and has resulted in more streamlined processes and tools that should enable us to simplify and improve how we do business with our clients and consultants.

A continued focus of Kforce is cultivating relationships with premier partners and strategic clients, both in terms of annual revenues and geographic dispersion. In order to achieve greater penetration within each of our largest accounts, we work to foster an understanding of our clients’ needs holistically while building a consultative partnership rather than a transactional client relationship. We are increasingly concentrated on bringing our core employees closer to the customer, and with that in mind we have integrated our largest accounts leadership team into our field leadership team, enhancing our alignment to serve these clients. We believe that this strategy will allow us to more effectively drive expansion in our share of our clients’ staffing needs, as well as capturing additional overall market share.

We believe we have developed long-term relationships with our clients by repeatedly providing solutions to their specialty staffing requirements. We strive to differentiate ourselves by working closely with our clients to understand their needs and maximize their return on human capital. Finding the right match for both our clients and consultants is our ultimate priority. The placement of our highly skilled consultants requires operational and technical skill to effectively recruit and evaluate personnel, match them to client needs, and manage the resulting relationships. We believe the proper placements of consultants with the right clients will serve to balance the desire for optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, consultants and the Firm. In addition, Kforce’s ability to offer flexible staffing solutions, coupled with our permanent placement capability, offers the client a broad spectrum of specialty staffing services. We believe this ability enables Kforce to emphasize consultative rather than transactional client relationships, and therefore facilitates further client penetration and the expansion of our share of our clients’ staffing needs.

We concentrate resources among our segments and staffing services to the areas of highest anticipated demand to adapt to the ever-changing landscape within the staffing industry. We believe our historical focus in these markets, combined with our associates’ operating expertise, provides us with a competitive advantage.

Optimize Operating Margins. The optimization of operating margins remains an important goal for Kforce as we strive to deliver profitable revenue growth. We believe our revenue-focused alignment and streamlined infrastructure will allow us to meet the needs of our clients and consultants in the most cost effective manner possible.

Retain our Great People. A significant focus of Kforce is on the retention of our tenured and top performing associates. We ended fiscal 2015 with an even more highly tenured management team, field sales team and back office employees, which we believe will continue to enhance our ability to achieve future profitable growth.

Table of Contents

We believe our consultants are a significant component in delivering value to our clients. We are focused on efficient and effective consultant care processes, such as onboarding, frequent and ongoing communication and programs to redeploy our consultants in a timely fashion. We strive to increase the tenure and loyalty of our consultants and be their “Employer of Choice,” thus enabling us to deliver the highest quality talent to our clients.

Continue to Develop and Optimize our National Recruiting Center (“NRC”). We believe our NRC, which is strategically located in both Tampa, Florida and Phoenix, Arizona, offers us a competitive advantage and supports delivery needs in each of our operating segments. The NRC is particularly effective at increasing the quality and speed of delivery services to our clients with demands for high volume staffing. The NRC identifies and interviews active candidates from nationally contracted job boards, Kforce.com, as well as other sources, then forwards qualified candidates to Kforce field offices to be matched to available positions. We continue to see a significant demand for our NRC resources and anticipate a continuation of that trend.

During 2015, we continued to focus on job order prioritization, which places greater attention on orders that we believe present the greatest opportunity and further evolved the NRC’s focus to more specific industries, customer segments and skill sets to create leverage. A continued focus for 2016 will be to enhance the performance of the NRC in meeting demand, and enhance our efforts to support future growth by building a pipeline of qualified candidates, as well as evolving its international talent solution strategy. The Firm will continue to utilize the NRC as a training ground for field sales and expect that top performers in the NRC with a strong knowledge of the delivery system will move into field-based roles.

Leverage Technology Infrastructure. In 2014, Kforce adopted and implemented an Agile software development methodology (whereby requirements and solutions evolve through cross-functional teams), and underwent an organizational transformation with a goal to maximize the responsiveness and timeliness by which value is delivered through our technology investments. We leveraged our Agile development methodology during 2015 to make incremental and valuable improvements to our front-end and back office systems. As we look into the future, we expect to continue improving our technology infrastructure and surrounding processes to generate additional operating leverage as we grow, enhance flexibility in meeting our clients' increasing needs and improve the effectiveness of our associates.

Enhance Shareholder Value. Kforce is committed to enhancing shareholder value. In 2015, the Firm continued to repurchase a significant amount of stock under the Board authorized program, completed four quarterly dividends, and continued to focus on reducing expenses. We increased the quarterly dividend amount by 9% to $0.12 in December 2015 to keep the annual yield at approximately 2%. Kforce expects to continue these initiatives in 2016.

Industry Overview

We serve Fortune 1000 companies, the Federal Government, state and local governments, local and regional companies, and small to mid-sized companies. Our 10 largest clients represented approximately 26% of revenues and no single customer accounted for more than 6% of revenues for the year ended December 31, 2015. The specialty staffing industry is made up of thousands of companies, most of which are small local firms providing limited service offerings to a relatively small local client base. We believe Kforce is one of the 10 largest publicly-traded specialty staffing firms in the United States. According to a report published by the SIA in July 2015, 122 companies reported at least $100 million in U.S. staffing revenues in 2014 with these companies representing an estimated 55.9% of the total market. Competition in a particular market can come from many different companies, both large and small. We believe, however, that our geographic presence, diversified service offerings, NRC, focus on consistent service and delivery and effective job order prioritization all provide a competitive advantage, particularly with clients that have operations in multiple geographic markets. In addition, we believe that our service offerings are primarily concentrated in areas with significant growth opportunities in both the short and long term.

Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. 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”). Total temporary employment increased 3.3% year-over-year and the penetration rate remained near record levels at 2.06% in December 2015. While the macro-employment picture remains uncertain, it has continuously improved, with the unemployment rate at 5.0% as of December 2015, and non-farm payroll expanding an average of 221,000 jobs per month in 2015. Also, 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, was at 2.5% in December 2015. Further, we believe that the unemployment rate in the specialties we serve is lower than the published averages, which we believe speaks to the demand environment in which we are operating. Management believes that uncertainty in the overall U.S. economic outlook related to the political landscape, potential tax changes, geo-political risk and impact of health care reform, may continue to fuel growth in temporary staffing as employers may be reluctant to increase full-time hiring. Additionally, we believe the increasing costs and government regulation of employment may be driving a secular shift to an increased use of temporary staff as a percentage of total workforce. Given the near record levels of the penetration rate, we believe that our Flex revenues may grow 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; however, the economic environment includes considerable uncertainty and volatility and therefore no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular.

According to an industry forecast published by SIA in September 2015, the U.S. temporary staffing industry generated estimated revenues of $99.4 billion in 2012, $103.7 billion in 2013 and $109.2 billion in 2014, and has projected revenues of $116.4 billion in 2015 and $123.0 billion in 2016. Based on projected revenues of $116.4 billion for the U.S. temporary staffing industry, this would put the Firm’s overall market share at approximately 1%. Therefore, our previously discussed business strategies are sharply focused around expanding our share of the U.S. temporary staffing market and further penetrating our existing clients’ staffing needs.

Over the last few years, we have undertaken and continue to progress on 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 talent to capitalize on targeted growth opportunities; (4) further defining and monitoring our client portfolio to ensure appropriate focus and prioritization; (5) further optimizing our NRC team in support of our field operations; (6) upgrading our corporate systems; (7) focusing on process improvements; and (8) divesting of HIM, which we considered a non-core business. We believe our realigned field operations and revenue-enabling operations models 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 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.

Regulatory Environment

Staffing firms are generally subject to one or more of the following types of government regulations: (1) regulation of the employer/employee relationship between a firm and its staff, such as wage and hour regulations, tax withholding and reporting, social security and other retirement, anti-discrimination, employee benefits and workers’ compensation regulations; (2) registration, licensing, recordkeeping and reporting requirements and (3) substantive limitations on their operations.

In providing staffing and solution services to the Federal Government, we must comply with complex laws and regulations relating to the formation, administration, and performance of Federal Government contracts. These laws and regulations create compliance risk and affect how we do business with our federal agency clients, and may impose added costs on our business.

In the increasingly stringent regulatory environment, one of our top priorities is compliance. As we continue to evolve our infrastructure, compliance remains a primary focus. For more discussion of the potential impact that the regulatory environment could have on Kforce's financial results, please see Item 1A. Risk Factors below.

Table of Contents

Competition

We operate in a highly competitive and fragmented specialty staffing services industry within each of our operating segments. We face substantial competition from large national firms and local specialty staffing firms. The local firms are typically operator-owned, and each market generally has one or more significant competitors. We also face competition from national clerical and light industrial staffing firms, and national and regional accounting firms that also offer certain specialty staffing services. However, within temporary staffing, the working capital requirements can be a barrier to entry, because most consultants are paid weekly and customers may take 30 to 45 days or more to pay.

In addition, many companies utilize Managed Service Providers (“MSP”) or Vendor Management Organizations ("VMO") for the management and purchase of staffing services. Generally, MSPs and VMOs are organizations that standardize processes through the use of Vendor Management Systems (“VMS”), which are tools used to aggregate spend and measure supplier performance. VMSs can also be provided through independent providers. Typically, MSPs, VMOs and/or VMS providers charge staffing firms administrative fees of 1% to 4% of total service revenues, and these fees are usually recorded by staffing firms as a cost of services, thereby compressing profit margins. While Kforce does not currently provide MSP or VMO services directly to its clients, our strategy is to work with specific MSPs, VMOs and VMS providers to enable us to extend our Flex staffing services to the widest customer base possible within the sectors we serve.

Kforce believes that the availability and quality of associates and consultants, level of service, effective monitoring of job performance, scope of geographic service, and price are the principal elements of competition in our industry. We believe that availability of quality associates and consultants is especially important. In order to attract candidates and consultants, we place emphasis upon our ability to provide competitive compensation and benefits, quality and varied assignments, scheduling flexibility, and permanent placement opportunities, all of which are important to Kforce being the “Employer of Choice.” Because personnel pursue other employment opportunities on a regular basis, it is important that we respond to market conditions affecting these individuals, and focus on our consultant care objectives. Additionally, in certain markets and in response to economic softening, we have experienced significant pricing pressure from some of our competitors. Although we believe we compete favorably with respect to these factors, we expect competition and pricing pressure to continue, which may result in us not being able to effectively compete or choosing to not participate in certain business that does not meet our profitability standard.

As stated previously, according to SIA there are 122 staffing firms with more than $100 million in U.S. staffing revenues in operation and thousands of smaller organizations compete to varying degrees at local levels. Several similar companies – global, national, and local – compete in foreign markets. Our peer group for 2015, which is comprised of some of our largest competitors, included: CDI Corp., Computer Task Group Inc., Kelly Services, Inc., Manpower Inc., On Assignment, Inc., Resources Connection, Inc., Robert Half International Inc., and TrueBlue Inc.

Seasonality of Operating Results

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers’ businesses. The majority of our reporting segments are significantly impacted by the increase in the number of holidays and vacation days taken during the fourth quarter of the calendar year. 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 annual U.S. state and federal employment tax resets that occur at the beginning of each year.

Insurance

Kforce maintains a number of insurance policies including general liability, automobile liability and employers’ liability; each with excess liability coverage. We also maintain workers’ compensation, fidelity, fiduciary, directors and officers, professional liability, and employment practices liability policies. These policies provide coverage subject to their terms, conditions, limits of liability, and deductibles, for certain liabilities that may arise from Kforce’s operations. There can be no assurance that any of the above policies will be adequate for our needs or that we will maintain all such policies in the future.

Financial Information about Foreign and Domestic Operations

Substantially all of Kforce’s revenues are derived from domestic operations with customers located in the United States and substantially all long-lived assets were located in the United States for the three years ended December 31,

2015. One of our subsidiaries, Global, provides outsourcing services internationally through an office in Manila, Philippines. Our international operations comprised less than 2% of net service revenues for each of the three years ended December 31, 2015, 2014 and 2013.

Table of Contents

Financial Information about Business Segments

We provide our clients staffing services and solutions through three reporting segments: Tech, FA and GS. For segment financial data see Note 16 – “Reportable Segments” in the Notes to Consolidated Financial Statements.

Operating Employees and Personnel

As of December 31, 2015, Kforce employed more than 2,800 associates and had more than 11,600 consultants on assignment (“Flexible Consultants”) providing flexible staffing services and solutions to our clients. Approximately 85% of the Flexible Consultants are employed directly by Kforce (“Flexible Employees”); the balance consists of individuals who are employed by other entities (“Independent Contractors”) that provide their employees as subcontractors to Kforce for assignment to Kforce's clients. As the employer, Kforce is responsible for the operating employees’ and Flexible Employees’ payrolls and the employer’s share of applicable social security taxes (“FICA”), federal and state unemployment taxes, workers’ compensation insurance, and other direct labor costs relating to our employees. We offer access to various health, life and disability insurance programs and other benefits for operating employees and Flexible Employees. We have no collective bargaining agreements covering any of our operating employees or Flexible Employees, have never experienced any material labor disruption, and are unaware of any current efforts or plans to organize any of our employees.

Availability of Reports and Other Information

We make available, free of charge, through the Investor Relations page on our website, and by responding to requests addressed to Michael Blackman, our Chief Corporate Development Officer, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically submit such materials to the SEC. Our corporate website address is http://www.kforce.com. The information contained on our website, or on other websites linked to our website, is not part of this document. The SEC makes available on its website, free of charge, reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the SEC. The SEC’s website is http://www.sec.gov. Information provided on the SEC’s website is not part of this report.

Table of Contents

Item 1A. Risk Factors.

Kforce faces significant employment-related legal risk.

Kforce employs people internally and in the workplaces of our clients. An inherent risk of such activity includes possible discrimination and harassment claims; wrongful termination; violations of employment rights related to employment screening or privacy issues; classification of workers as employees or independent contractors; violations of wage and hour requirements; employment of illegal aliens; criminal activity; torts; or other claims. Such claims may result in negative publicity, injunctive relief, criminal investigations and/or charges, civil litigation, payment by Kforce of monetary damages or fines, or other material adverse effects on our business. To reduce our exposure, we maintain policies and guidelines to promote compliance with laws, rules and regulations applicable to our business. We also maintain insurance coverage for professional malpractice liability, fidelity, employment practices liability, and general liability in amounts and with deductibles that we believe is appropriate for our operations. However, the failure of any of our personnel to observe our policies and guidelines could result in negative publicity, injunctive relief, criminal investigation and/or charges, payments of monetary damages or fines, or other material adverse effects on our business. In addition, our insurance coverage may not cover all potential claims against us, may require us to meet a deductible or may not continue to be available to us at a reasonable cost. In this regard, we face various employment-related risks not covered by insurance, such as wage and hour laws and employment tax responsibility. U.S. Courts in recent years have been receiving large numbers of wage and hour class action claims alleging misclassification of overtime eligible workers and/or failure to pay overtime-eligible workers for all hours worked.

Kforce may be exposed to unforeseeable negative acts by our personnel that could have a material adverse effect on our business.

An inherent risk of employing people internally and in the workplace of other businesses is that many of these individuals have access to client information systems and confidential information. Such activity includes possible acts of errors and omissions; intentional misconduct; release, misuse or misappropriation of client intellectual property, confidential information, funds, or other property; cyber security breaches affecting our clients and/or us; or other acts. Such acts may result in negative publicity or other material adverse effects on our business. In addition, these occurrences may give rise to litigation, which could be time-consuming and expensive. To reduce our exposure, we maintain policies, procedures and insurance coverage for types and amounts we believe are appropriate in light of the aforementioned exposures. There can be no assurance that the corporate policies and practices we have in place to help reduce our exposure to these risks will be effective or that we will not experience losses as a result of these risks. In addition, our insurance coverage may not cover all potential claims against us, may require us to meet a deductible or may not continue to be available to us at a reasonable cost.

The U.S. professional staffing industry in which we operate is significantly affected by fluctuations in general economic and employment conditions.

Demand for staffing services is significantly affected by the general level of economic activity and employment in the United States. Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. Even without uncertainty and volatility, it is difficult for us to forecast future demand for our services due to the inherent difficulties in forecasting the strength of economic cycles, and the short-term nature of many of our agreements, other than in our GS segment. As economic activity slows, companies may defer projects for which they utilize our services or reduce their use of temporary employees before laying off full-time employees. In addition, an economic downturn could result in a reduction in the temporary staffing penetration rate, an increase in the unemployment rate and a deceleration of growth in the segments in which we and our clients operate. We may also experience more competitive pricing pressures during periods of economic downturn. Approximately 98% of our revenue is generated by our business operations in the United States. Any substantial economic downturn in the United States or global impact on the United States could have a material adverse effect on our business, financial condition, and results of operations.

Kforce may be adversely affected by government regulation of the staffing business and of the workplace.

Our business is subject to regulation and licensing in many states. There can be no assurance that we will be able to continue to obtain all necessary licenses or approvals or that the cost of compliance will not prove to be material. If we fail to comply, such failure could materially adversely affect Kforce’s financial results.

A large part of our business entails employing individuals on a temporary basis and placing such individuals in clients’ workplaces. Increased government regulation of the workplace or of the employer/employee relationship could have a material adverse effect on Kforce. For example, changes to government regulations, including changes to statutory hourly wage and overtime regulations, could adversely affect the Firm's results of operations by increasing its costs.

Table of Contents

Reclassification of our independent contractors by tax or regulatory authorities could materially and adversely affect our business model and could require us to pay significant retroactive wages, taxes and penalties.

We utilize individuals who are not our employees to provide services in connection with our business as third-party independent contractors rather than our direct employees. There is a heightened state and federal scrutiny of independent contractor relationships, which could adversely affect us given that we utilize independent contractors to perform our services. An adverse determination of the independent contractor status of these subcontracted personnel could result in a substantial tax or other liabilities to us.

Our collection, use and retention of personally identifiable information of our associates and consultants create risks that may harm our business.

In the ordinary course of our business, we collect and retain personal information of our associates and consultants and their dependents including, without limitation, full names, social security numbers, addresses, birth dates, and payroll-related information. We use commercially available information security technologies to protect such information in digital format. We also use security and business controls to limit access to such information. However, employees or third parties (including third parties with substantially greater resources than our own; for example, foreign governments) may be able to circumvent these measures and acquire or misuse such information, resulting in breaches of privacy, and errors in the storage, use or transmission of such information. Privacy breaches may require notification and other remedies, which can be costly, and which may have other serious adverse consequences for our business, including regulatory penalties and fines, claims for breach of contract, claims for damages, adverse publicity, reduced demand for our services by clients and/or Flex employment candidates, harm to our reputation, and regulatory oversight by state or federal agencies.

The possession and use of personal information and data in conducting our business subjects us to legislative and regulatory burdens. We may be required to incur significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

Kforce may be adversely affected by immigration restrictions.

Our Tech business utilizes a significant number of foreign nationals employed by us on work visas, primarily under the H-1B visa classification. The H-1B visa classification that enables U.S. employers to hire qualified foreign nationals is subject to legislative and administrative changes, as well as changes in the application of standards and enforcement. Immigration laws and regulations can be significantly affected by political developments and levels of economic activity. Current and future restrictions on the availability of such visas could restrain our ability to employ the skilled professionals we need to meet our clients' needs, which could have a material adverse effect on our business. The United States Citizenship and Immigration Service ("USCIS") continues to closely scrutinize companies seeking to sponsor, renew or transfer H-1B status, including Kforce and Kforce's subcontractors and has issued internal guidance to its field offices that appears to narrow the eligibility criteria for H-1B status in the context of staffing services. In addition to USCIS restrictions, certain aspects of the H-1B program are also subject to regulation and review by the U.S. Department of Labor and U.S. Department of State, which have recently increased enforcement activities in the program. A narrow interpretation and vigorous enforcement, or legislative action relating to immigration, including legislation intended to reform existing immigration law, could adversely affect our ability to obtain foreign national labor and/or renew existing foreign national consultants on assignment, and could subject us to fines, penalties and sanctions. There can be no assurance that we will be able to keep or replace all foreign nationals currently on assignment, or continue to hire foreign national talent at the same rates as in the past.

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

Kforce depends upon the abilities of its staff to attract and retain personnel, particularly technical, professional, and cleared government services personnel, who possess the skills and experience necessary to meet the staffing requirements of our clients. We must continually evaluate and upgrade our base of available qualified personnel to keep pace with changing client needs and emerging technologies. We expect significant competition for individuals with proven technical or professional skills for the foreseeable future. The supply of available candidates has been constrained for the past few years. If qualified personnel are not available to us in sufficient numbers and upon economic terms acceptable to us, it could have a material adverse effect on our business.

Table of Contents

Kforce’s success depends upon retaining the services of its management team and key operating employees.
Kforce is highly dependent on its management team and expects that continued success will depend largely upon their efforts and abilities. The loss of the services of any key executive for any reason could have a material adverse effect upon Kforce. Success also depends upon our ability to identify, develop, and retain qualified operating employees; particularly management, client servicing, and candidate recruiting employees. Kforce expends significant resources in the recruiting and training of its employees, as the pool of available applicants for these positions is limited. The loss of some of our key operating employees could have a material adverse effect on our business, including our ability to establish and maintain client and candidate, professional, and technical relationships.
Kforce maintains debt which contains restrictive covenants that could trigger prepayment of obligations or additional costs.
We have a credit facility consisting of a revolving line of credit of up to $170 million. 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.
Kforce is subject to certain affirmative and negative covenants under the credit facility. Our failure to comply with such restrictive covenants could result in an event of default, which, if not cured or waived, could result in Kforce being required to repay the outstanding balance before the due date. We may not be able to repay our debt or if forced to refinance on terms not acceptable to us could have a material adverse affect on our results of operations and financial condition.
Declines in business or a loss of our major customer accounts could have a material adverse effect on our revenues and financial results.
Part of our business strategy includes enhancing our service offerings to our largest client accounts. This strategy is intended to enable us to profitably grow our revenues from our major customer accounts, however, it also concentrates a significant portion of our revenues among our largest clients and exposes us to increased risks arising from decreases in the volume of business from, or the possible loss of, those major customer accounts. Organizational changes occurring within those customers, or a deterioration of their financial condition or business prospects, could reduce their need for our services and result in a significant decrease in the revenues we derive from those customers and could have a material adverse effect on our financial results.
Kforce’s temporary staffing business could be adversely impacted by health care reform.
The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the “PPACA”) imposes new mandates on individuals and employers, requiring most individuals to have health insurance. The PPACA assesses penalties on large employers that do not offer health insurance meeting certain coverage, value, or affordability standards to all full-time employees as defined under the PPACA. Because the regulations governing the PPACA’s employer mandate are new and subject to interpretation, it is possible that Kforce may incur liability in the form of penalties, fines, or damages if the health plans we offer are subsequently found not to meet minimum essential coverage, affordability or minimum value standards, or if our method for determining eligibility for coverage is found inadequate or our clients seek indemnification for health care claims resulting from consultants working on client assignments. The cost of any such penalties, fines or damages could have a material adverse effect on Kforce’s financial and operating results.
We are exposed to intangible asset risk which could result in future impairment.
A significant and sustained decline in our stock price and market capitalization, a significant decline in our (or in one or more of our reporting units’) expected future cash flows, a significant adverse change in the business climate, slower growth rates, or changes in our business strategy have resulted, and could result in the future, in the need to perform an impairment analysis. If we were to conclude that a future write-down of our goodwill or other intangible assets is necessary, it could result in material charges that are adverse to our operating results and financial position. See Note 6 – “Goodwill and Other Intangible Assets” in the Notes to Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates” for further details, including the details regarding the goodwill impairment losses within our GS reporting unit in recent years.

Table of Contents

Significant legal actions could subject Kforce to substantial uninsured liabilities.

Professional service providers are subject to legal actions alleging malpractice, breach of contract and other legal theories. These actions may involve large claims and significant defense costs. We may also be subject to claims alleging violations of federal or state labor laws. In addition, we may be subject to claims related to torts, intentional acts, or crimes committed by our full-time employees or temporary staffing personnel. In some instances, we are contractually obligated to indemnify clients against such risks. A failure to observe the applicable standard of care, relevant Kforce or client policies and guidelines, or applicable federal, state, local or foreign laws, rules, and regulations could result in negative publicity, payment of fines, significant damage awards, or settlement expense. To reduce our exposure, we maintain insurance coverage for professional malpractice liability, fidelity, employment practices liability and general liability, in amounts and with deductibles that we believe are appropriate for our operations. Our insurance coverage, however, may not cover all claims against us or continue to be available to us at a reasonable cost.

Delays or defaults in collecting our trade accounts receivable could adversely affect our business.

We generate a significant amount of trade accounts receivable from our customers. Delays or defaults in payments owed to us could have a material adverse effect on our financial condition and results of operations. Factors that could cause a delay or default include business failures, turmoil in the financial and credit markets, sluggish or recessionary U.S. economic conditions, our exposure to customers in high-risk sectors such as the financial services industry, and declines in the credit worthiness of our customers. See Note 1 – “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements for further details.

Kforce depends on the proper functioning of its information systems.

Kforce is dependent on the proper functioning of information systems in operating its business. Critical information systems are used in every aspect of Kforce’s daily operations, most significantly, in the identification and matching of staffing resources to client assignments and in the customer billing and consultant or vendor payment functions. Kforce’s information systems are vulnerable to natural disasters (we are headquartered and our leased data center are located in a hurricane-prone area), fire or casualty theft, technical failures, terrorist acts, cyber security breaches, power loss, telecommunications failures, physical or software intrusions, computer viruses, and similar events. If our critical information systems fail or are otherwise unavailable, we would have to accomplish these functions manually, which could prove difficult or impossible, causing a material adverse effect on our business. Some of our information technology systems and networks are cloud-based or managed by third parties. In addition, we depend on third-party vendors for certain functions (including the operations of our leased data center), whose future performance and reliability we cannot control.

Cybersecurity risks and cyber incidents could adversely affect our business and disrupt operations.

Cyber attacks or other breaches of network or information technology used by our associates and consultants, as well as risks associated with compliance on data privacy could have an adverse effect on our systems, services, operations and financial results. These attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Techniques used to obtain unauthorized access or cause system interruption change frequently and may not immediately produce signs of intrusion. As a result, we may be unable to anticipate these incidents or techniques, timely discover them, or implement adequate preventative measures. Our information technology may not provide sufficient protection, and as a result we may lose significant information about us or our employees or customers. Other results of these incidents could include, but are not limited to, increased cybersecurity protection costs, litigation and reputational damage adversely affecting customer or investor confidence.

Significant increases in payroll-related costs could adversely affect Kforce’s business.

Kforce is required to pay a number of federal, state, and local payroll and related costs or provide certain benefits such as paid time off, sick leave, unemployment taxes, workers’ compensation and insurance premiums and claims, FICA, and Medicare, among others, related to our employees. Significant increases in the effective rates of any payroll-related costs would likely have a material adverse effect on Kforce. Costs could also increase as a result of health care reforms or the possible imposition of additional requirements and restrictions related to the placement of personnel. We may not be able to increase the fees charged to our clients in a timely manner or in a sufficient amount to cover these potential cost increases.

Table of Contents

Adverse results in tax audits could result in significant cash expenditures or exposure to unforeseen liabilities.
Kforce is subject to periodic federal, state, and local tax audits for various tax years. Although Kforce attempts to comply with all taxing authority regulations, adverse findings or assessments made by taxing authorities as the result of an audit could have a material adverse effect on Kforce.
Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors and fraud, or in making all material information known in a timely manner to management.
Our management, including our CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Kforce have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.
The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations, misstatements due to error or fraud may occur and not be detected.
Our business is dependent upon maintaining our reputation, our relationships, and our performance.
The reputation and relationships that we have established and currently maintain with our customers are important to maintaining existing business and identifying new business. If our reputation or relationships were damaged, it could have a material adverse effect on our operations. In addition, if our performance does not meet our customers' expectations, our revenues and operating results could be materially harmed.
Agreements may be terminated by clients and Flexible Consultants at will and the termination of a significant number of such agreements could adversely affect our revenues.
Our agreements do not provide for exclusive use of our services, and clients are free to place orders with our competitors. Each Flexible Consultant's relationship with us is terminable at will. If clients terminate a significant number of our agreements and we are unable to generate new contracts, or a significant number of our contracted personnel terminate their employment with us and are unable to find suitable replacements, the growth of our business could be adversely affected and our revenues and results of operations could be harmed.
Kforce's current market share may decrease as a result of limited barriers to entry for new competitors and discontinuation of clients outsourcing their staffing needs.
We face significant competition in the markets we serve, and there are limited barriers to entry for new competitors. The competition among staffing services firms is intense. Kforce competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, temporary personnel agencies, search firms, and other providers of staffing services. Some of our competitors possess substantially greater resources than we do. From time to time, we experience significant pressure from our clients to reduce price levels. During these periods, we may face increased competitive pricing pressures and may not be able to recruit the personnel necessary to fulfill our clients' needs. We also face the risk that certain of our current and prospective clients will decide to provide similar services internally.
Provisions in Kforce's articles and bylaws and under Florida law may have certain anti-takeover effects.
Kforce's articles of incorporation and bylaws and Florida law contain provisions that may have the effect of inhibiting a non-negotiated merger or other business combination. In particular, our articles of incorporation provide for a staggered board of directors and permit the removal of directors only for cause. Additionally, the Board may issue up to 15 million shares of preferred stock, and fix the rights and preferences thereof, without a further vote of the shareholders. In addition, certain of our officers and managers have employment agreements containing certain provisions that call for substantial payments to be made to such employees in certain circumstances upon a change in

control. Certain of these provisions may discourage a future acquisition of Kforce, including an acquisition in which shareholders might otherwise receive a premium for their shares. As a result, shareholders who might desire to participate in such a transaction may not have the opportunity to do so. Moreover, the existence of these provisions could have a negative effect on the market price of our common stock.

Table of Contents

Kforce’s stock price may be volatile.

The market price of our stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including our operating results, changes in general conditions in the economy, the financial markets, the staffing industry, or other developments affecting us, our clients, or our competitors; some of which may be unrelated to our performance.

In addition, the stock market in general, especially The NASDAQ Global Select Market tier, along with market prices for staffing companies, has experienced volatility that has often been unrelated to the operating performance of these companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Among other things, volatility in our stock price could mean that investors will not be able to sell their shares at or above the prices they pay. The volatility also could impair our ability in the future to offer common stock as a source of additional capital or as consideration in the acquisition of other businesses.

Table of Contents

RISKS RELATED TO OUR GOVERNMENT BUSINESS

Our GS segment is substantially dedicated to contracting with and serving U.S. Federal Government agencies (the “Government Business”). In addition, Kforce supplies services to the Federal Government which poses additional risks to those mentioned previously. Federal contractors, including Kforce face a number of risks, including the following:

Our failure to comply with complex federal procurement laws and regulations could cause us to lose business, incur additional costs, and subject us to a variety of penalties, including suspension and debarment from doing business with the Federal Government.

We must comply with complex laws and regulations relating to the formation, administration, and performance of Federal Government contracts. These laws and regulations create compliance risk, affect how we do business with our federal agency clients, and may impose added costs on our business. If a government review, audit or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to our reputation, suspension of payments, fines, and suspension or debarment from doing business with Federal Government agencies.

The Federal Government also may reform its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, that could be costly to satisfy or that could impact our ability to obtain new contracts. A failure to comply with all applicable laws and regulations could result in contract termination, price or fee reductions, or suspension or debarment from contracting with Federal Government agencies; each of which could lead to a material reduction in our revenues, cash flows and operating results.

Unfavorable government audit results could force us to refund previously recognized revenues and could subject us to a variety of penalties and sanctions.

Federal agencies can audit and review our performance on contracts, pricing practices, cost structure, incurred cost submissions and compliance with applicable laws, regulations, and standards. An audit of our work, including an audit of work performed by companies Kforce has acquired or may acquire, or subcontractors we have hired or may hire, could force us to refund previously recognized revenues.

If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with Federal Government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made against us, whether or not true.

We are dependent upon the ability of government agencies to administratively manage our contracts.

After we are awarded a contract and the contract is funded by the Federal Government, we are still dependent upon the ability of the relevant agency to administratively manage our contract. We can be adversely impacted by delays in the start-up of already awarded and funded projects, including delays due to shortages of acquisition and contracting personnel within the Federal Government agencies.

Changes in the spending policies or budget priorities of the Federal Government including the failure by Congress to approve budgets, raise the U.S. debt ceiling or avoid sequestration on a timely basis for the federal agencies we support could delay, reduce or stop federal spending and cause us to lose revenue or impair our intangible assets.

Changes in Federal Government fiscal or spending policies could materially adversely affect our Government Business; in particular, our business could be materially adversely affected by decreases in Federal Government spending. In addition, on an annual basis, Congress must approve and the President must sign the appropriation bills that govern spending by each of the federal agencies we support. If Congress is unable to agree on budget priorities and is unable to appropriate funds or pass the annual budget on a timely basis, as has been the case in recent years, there may be delays, reductions or cessations of funding for our services and solutions. In addition, from time to time it has been necessary for Congress to raise the U.S. debt ceiling in order to allow for borrowing necessary to fund government operations. If that becomes necessary again and Congress fails to raise the debt ceiling on a timely basis, there may be delays, reductions or cessations of funding for our services and solutions. Furthermore, legislatively mandated cuts in federal programs, known as sequestration, could result in delays, reductions or cessation of funding for our services and solutions.

Table of Contents

Competition is intense in the Government Business.
There is often intense competition to win federal agency contracts. The competitive bidding process entails substantial costs and management time to prepare bids and proposals for contracts that may not be awarded to us or may be split among competitors. Even when a contract is awarded to us, we may encounter significant expenses, delays, contract modifications, or bid protests from competitors. If we are unable to successfully compete for new business or win competitions to maintain existing business, our operations could be materially adversely affected. Many of our competitors are larger and have greater resources, larger client bases, and greater brand recognition than we do. Our larger competitors also may be able to provide clients with different or greater capabilities or benefits than we can provide.
Loss of our General Services Administration ("GSA") Schedules or other contracting vehicles could impair our ability to win new business.
GSA Schedules constitute a significant percentage of revenues from our federal agency clients. If we were to lose one or more of these Schedules or other contracting vehicles, we could lose revenues and our operating results could be materially adversely affected. These Schedules or contracts typically have an initial term with multiple options that may be exercised by our government agency clients to extend the contract for successive periods of one or more years. We can provide no assurance that our clients will exercise these options.
Our failure to obtain and maintain necessary security clearances may limit our ability to perform classified work for government clients, which could cause us to lose business.
Some government contracts require us to maintain facility security clearances and require some of our employees to maintain individual security clearances. If our employees lose or are unable to timely obtain security clearances, or we lose a facility clearance, a government agency client may terminate the contract or decide not to renew it upon its expiration.
Our employees may engage in misconduct or other improper activities, which could harm our business.
Like all government contractors, we are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by our employees could include intentional failures to comply with Federal Government procurement regulations, engaging in unauthorized activities, seeking reimbursement for improper expenses, or falsifying time records. Employee misconduct could also involve the improper use of our clients' sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation. It is not always possible to deter employee misconduct, and precautions to prevent and detect this activity may not be effective in controlling such risks or losses, which could materially adversely affect our business.
Security breaches in sensitive government information systems could result in the loss of our clients and cause negative publicity.
Many of the systems we develop, install, and maintain involve managing and protecting information used in intelligence, national security, and other sensitive or classified government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive or classified systems for Federal Government clients. We could incur losses from such a security breach that could exceed the policy limits under our insurance. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of our systems could materially reduce our revenues.
We are the prime contractor on many of our contracts and if our subcontractors fail to appropriately perform their obligations, our performance and our ability to win future contracts could be harmed.
For many of our contracts where we are the prime contractor, we involve subcontractors, which we rely on to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed or customer concerns about the subcontractor's performance. In addition, the contracting parties on which we rely may be affected by changes in the economic environment and constraints on available financing to meet their performance requirements or provide needed supplies on a timely basis. A failure by one or more of those contracting parties to provide the agreed-upon supplies or perform the agreed-upon services on a timely basis may affect our ability to perform our obligations.

Table of Contents

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

On May 27, 2010, we acquired our corporate headquarters in Tampa, Florida, which is approximately 128,000 square feet of space. Leases for our field offices, which are located throughout the U.S., range from three to five-year terms although a limited number of leases contain short-term renewal provisions that range from month-to-month to one year. We also lease an office in Manila, Philippines, which is approximately 17,000 square feet of space.

Although additional field offices may be established based on the requirements of our operations, we believe that our facilities are adequate for our current needs, and we do not expect to materially expand our facilities in the foreseeable future.

Item 3. 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 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 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 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 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock trades on the NASDAQ Global Select Market using the ticker symbol "KFRC". The following table sets forth, for the periods indicated, the high and low intra-day sales price of our common stock, as reported on the NASDAQ Global Select Market. These prices represent inter-dealer quotations without retail markups, markdowns or commissions, and may not represent actual transactions.

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2015				
High	$24.99	$23.92	$29.33	$28.84
Low	$21.34	$20.32	$21.83	$22.90
2014				
High	$22.59	$23.80	$22.76	$24.72
Low	$17.30	$19.97	$17.20	$18.65

From January 1, 2016 through February 23, 2016, the high and low intra-day sales price of our common stock was $25.00 and $14.87, respectively. On February 23, 2016, the last reported sale price of our common stock on the NASDAQ Global Select Market was $16.14 per share.

Holders of Common Stock

As of February 23, 2016, there were approximately 167 holders of record.

Dividends

Kforce's 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 table provides quarterly dividend information for the years ended December 31, 2015 and 2014:

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2015	$0.11	$0.11	$0.11	$0.12
2014	$0.10	$0.10	$0.10	$0.11

Kforce currently expects to continue to declare and pay quarterly dividends of a similar amount. However, the declaration, payment and amount of future dividends are discretionary and will be subject to determination by Kforce's Board of Directors each quarter following its review of, among other things, the Firm's financial performance and our legal ability to pay dividends. There can be no assurances that dividends will be paid in the future.

Table of Contents

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about our common stock that may be issued under all of our existing equity compensation plans as of December 31, 2015:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (c) (Excluding Securities Reflected in Column (a)) (3) (4)
Equity compensation plans approved by shareholders			
Kforce Inc. 2013 Stock Incentive Plan	—	—	1,638,581
Kforce Inc. 2006 Stock Incentive Plan	25,000	$11.58	34,425
Kforce Inc. 2009 Employee Stock Purchase Plan	N/A	N/A	2,790,395
Kforce Inc. Incentive Stock Option Plan (5)	—	$—	—
Total	25,000	$11.58	4,463,401

(1) In addition to the number of securities listed in this column, 1,179,094 shares and 114,223 shares of restricted stock granted under the 2013 Stock Incentive Plan and 2006 Stock Incentive Plan, respectively, have been issued and are unvested as of December 31, 2015.

(2) The weighted-average exercise price excludes unvested restricted stock because there is no exercise price associated with these equity awards.

(3) All of the shares of common stock that remain available for future issuance under the Kforce Inc. 2006 and 2013 Stock Incentive Plans may be issued in connection with options, warrants, rights and restricted stock awards. Each future grant of options or stock appreciation rights shall reduce the available shares under the Kforce Inc. 2006 and 2013 Stock Incentive Plans by an equal amount while each future grant of restricted stock shall reduce the available shares by 1.58 shares for each share awarded. In order to maximize our share reserves, the prevailing practice over the last few years has been for Kforce to issue full value awards as opposed to options and stock appreciation rights.

(4) As of December 31, 2015, there were options outstanding under the Kforce Inc. 2009 Employee Stock Purchase Plan (“2009 ESPP”) to purchase 7,997 shares of common stock at a discounted purchase price of $24.02.

(5) Issuances of options under the Incentive Stock Option Plan ceased in 2005. All of the outstanding options issued pursuant to this plan expired in March 2015.

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 December 31, 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
October 1, 2015 to October 31, 2015	—	$ —	—	$ 66,199,289
November 1, 2015 to November 30, 2015	331,912	$ 26.99	319,200	$ 57,584,351
December 1, 2015 to December 31, 2015	184,204	$ 25.15	184,204	$ 52,951,890
Total	516,116	$ 26.33	503,404	$ 52,951,890

(1) Includes 12,712 shares of stock received upon vesting of restricted stock to satisfy statutory minimum tax withholding requirements for the period November 1, 2015 to November 30, 2015.

Table of Contents

Item 6. Selected Financial Data.

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with the information within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

	Years Ended December 31,				
	2015	2014 (1)	2013 (2)(3)	2012 (4)(5)	2011
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Net service revenues	$1,319,238	$1,217,331	$1,073,728	$1,005,487	$936,036
Gross profit	414,114	374,581	344,376	320,586	293,271
Selling, general and administrative expenses	330,416	315,338	307,944	305,940	258,578
Goodwill impairment	—	—	14,510	69,158	—
Depreciation and amortization	9,831	9,894	9,846	10,789	12,505
Other expense, net	2,195	1,392	1,147	1,057	1,220
Income (loss) from continuing operations, before income taxes	71,672	47,957	10,929	(66,358)	20,968
Income tax expense (benefit)	28,848	18,559	5,635	(24,227)	7,339
Income (loss) from continuing operations	42,824	29,398	5,294	(42,131)	13,629
Income from discontinued operations, net of income taxes	—	61,517	5,493	28,428	13,527
Net income (loss)	$42,824	$90,915	$10,787	$(13,703)	$27,156
Earnings (loss) per share – basic, continuing operations	$1.53	$0.94	$0.16	$(1.18)	$0.36
Earnings (loss) per share – diluted, continuing operations	$1.52	$0.93	$0.16	$(1.18)	$0.35
Earnings (loss) per share – basic	$1.53	$2.89	$0.32	$(0.38)	$0.72
Earnings (loss) per share – diluted	$1.52	$2.87	$0.32	$(0.38)	$0.70
Weighted average shares outstanding – basic	27,910	31,475	33,511	35,791	37,835
Weighted average shares outstanding – diluted	28,190	31,691	33,643	35,791	38,831
Cash dividends declared per share	$0.45	$0.41	$0.10	$1.00	$—

	As of December 31,				
	2015	2014	2013	2012	2011
	(IN THOUSANDS)				
Working capital	$126,788	$130,226	$112,913	$72,685	$103,075
Total assets	$351,822	$363,922	$347,768	$325,149	$409,672
Total outstanding borrowings on credit facility	$80,472	$93,333	$62,642	$21,000	$49,526
Total long-term liabilities	$124,449	$130,351	$100,562	$56,429	$93,393
Stockholders' equity	$139,627	$139,388	$157,233	$169,846	$233,115

(1) During the year ended December 31, 2014, Kforce terminated the Company's Supplemental Executive Retirement Health Plan ("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 approximately $0.7 million. The termination effectively removed Kforce's related post-retirement benefit obligation.

(2) Kforce recognized a goodwill impairment charge of $14.5 million related to the GS reporting unit during 2013. The tax benefit associated with this impairment charge was $5.2 million, resulting in an after-tax impairment charge of $9.3 million.

Table of Contents

(3) During the three months ended December 31, 2013, Kforce commenced a plan to streamline its leadership and support-related structure to better align a higher percentage of personnel in roles that are closest to the customer through an organizational realignment. As a result of the organizational realignment, Kforce incurred severance and termination-related expenses of $7.1 million during 2013 which were recorded within selling, general and administrative expense. Additionally, in connection with the realignment and succession planning, the Compensation Committee approved discretionary bonuses of $3.6 million paid to a broad group of senior management during the fourth quarter of 2013.

(4) Kforce recognized a goodwill impairment charge of $69.2 million related to the GS reporting unit during 2012. The tax benefit associated with this impairment charge was $24.7 million, resulting in an after-tax impairment charge of $44.5 million.

(5) In connection with the disposition of Kforce Clinical Research, Inc. (“KCR”), the Board exercised its discretion, as permitted within the Kforce Inc. 2006 Stock Incentive Plan, to accelerate the vesting, for tax planning purposes, of substantially all of the outstanding and unvested restricted stock and alternative long-term incentive (“ALTI”) awards on March 31, 2012, which resulted in the acceleration of $31.3 million of compensation expense and payroll taxes recorded during the three months ended March 31, 2012.

During the three months ended September 30, 2014, Kforce disposed 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 $96 thousand post-closing working capital adjustment. The results of operations for KHI have been presented as discontinued operations for all of the years presented above. See Note 2 – “Discontinued Operations” in the Notes to Consolidated Financial Statements for more detail.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following MD&A is intended to help the reader understand Kforce, our operations, and our present business environment. This MD&A should be read in conjunction with our consolidated financial statements and the accompanying notes thereto contained in Item 8. Financial Statements and Supplementary Data of this report, as well as Item 1. Business of this report for an overview of our operations and business environment.
This overview summarizes the MD&A, which includes the following sections:

- Executive Summary – an executive summary of our results of operations for 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.
- New Accounting Standards – a discussion of recently issued accounting standards and their potential impact on our consolidated financial statements.
- Results of Operations – an analysis of Kforce's consolidated results of operations for the three years presented in its 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 and 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. The results presented in the accompanying Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2014 and 2013 include activity relating to HIM as a discontinued operation. Except when specifically noted, our discussions below exclude any activity related to HIM, which are addressed separately in the discussion of Income from Discontinued Operations, Net of Income Taxes.

Table of Contents

EXECUTIVE SUMMARY

The following is an executive summary of what Kforce believes are 2015 highlights, which should be considered in the context of the additional discussions in this report and in conjunction with the consolidated financial statements and notes thereto. We believe such highlights are as follows:

- Net service revenues increased 8.4% to $1.32 billion in 2015 from $1.22 billion in 2014. Net service revenues increased 6.3% for Tech and 17.7% for FA and decreased 0.7% for GS.
- Flex revenues increased 8.1% to $1.27 billion in 2015 from $1.17 billion in 2014.
- Direct Hire revenues increased 15.8% to $54.1 million in 2015 from $46.7 million in 2014.
- Flex gross profit margin increased 50 basis points to 28.5% in 2015 from 28.0% in 2014 principally as a result of an expansion in the spread between our bill rates and pay rates in the FA segment, improved profitability from our GS segment primarily as a result of growth in its product business which carries a higher margin profile, and a more favorable payroll tax environment. Flex gross profit margin increased 20 basis points for Tech, 20 basis points for FA and 330 basis points for GS year-over-year.
- Selling, general and administrative ("SG&A") expenses as a percentage of revenues for the year ended December 31, 2015 was 25.0% compared to 25.9% in 2014 reflecting the leverage provided by our revenue growth, lower relative compensation costs and, we believe, continued spending discipline.
- Income from continuing operations of $42.8 million in 2015 increased $13.4 million compared with income from continuing operations of $29.4 million in 2014.
- Net income of $42.8 million for the year ended December 31, 2015 decreased $48.1 million from net income of $90.9 million for the year ended December 31, 2014 due primarily to the gain on sale of HIM in 2014.
- Diluted earnings per share from continuing operations for the year ended December 31, 2015 increased to $1.52, or 63.4%, from $0.93 per share in 2014.
- During 2015, Kforce repurchased 1.5 million shares of common stock on the open market at a total cost of approximately $36.7 million.
- The Firm declared and paid dividends totaling $0.45 per share during the year ended December 31, 2015 resulting in an aggregated cash payout of $12.5 million. The dividend in the fourth quarter increased to $0.12 per share.
- The total amount outstanding under the credit facility decreased $12.8 million to $80.5 million as of December 31, 2015 as compared to $93.3 million as of December 31, 2014 resulting primarily from strong operating cash flows of $70.2 million.

Table of Contents

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In connection with the preparation of our 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, revenues, 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 consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, estimates, assumptions and judgments to ensure that our 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.

Our significant accounting policies are discussed in Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report. Management believes that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Allowance for Doubtful Accounts, Fallouts and Other Accounts Receivable Reserves		
See Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report, for a complete discussion of our policies related to determining our allowance for doubtful accounts, fallouts and other accounts receivable reserves.	Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, a specific analysis of significant receivable balances that are past due, the concentration of accounts receivable among clients and higher-risk sectors, and the current state of the U.S. economy, in establishing its allowance for doubtful accounts. Kforce estimates its allowance for Direct Hire fallouts based on our historical experience with the actual occurrence of fallouts. Kforce estimates its reserve for future revenue adjustments (e.g. bill rate adjustments, time card adjustments, early pay discounts) based on our historical experience.	We have not made any material changes in the accounting methodology used to establish our allowance for doubtful accounts, fallouts and other accounts receivable reserves. As of December 31, 2015 and 2014, these allowances were 1.1% and 1.0% as a percentage of gross accounts receivable, respectively. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our allowance for doubtful accounts, fallouts and other accounts receivable reserves. However, if our estimates regarding estimated accounts receivable losses are inaccurate, we may be exposed to losses or gains that could be material. A 10% difference in actual accounts receivable losses reserved at December 31, 2015, would have impacted our net income for 2015 by

approximately $0.1 million.

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Goodwill Impairment		
We evaluate goodwill for impairment annually or more frequently whenever events or circumstances indicate that the fair value of a reporting unit is below its carrying value. We monitor the existence of potential impairment indicators throughout the year. See Note 6 – “Goodwill and Other Intangible Assets” in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report for a complete discussion of the valuation methodologies employed. The carrying value of goodwill as of December 31, 2015 by reporting unit was approximately $17.0 million, $8.0 million and $20.9 million for our Tech, FA and GS reporting units, respectively.	We determine the fair value of our reporting units using widely accepted valuation techniques, including the discounted cash flow, guideline transaction method and guideline company method. These types of analyses contain uncertainties because they require management to make significant assumptions and judgments including: (1) an appropriate rate to discount the expected future cash flows; (2) the inherent risk in achieving forecasted operating results; (3) long-term growth rates; (4) expectations for future economic cycles; (5) market comparable companies and appropriate adjustments thereto; and (6) market multiples. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations.	For our Tech and FA reporting units, Kforce assessed the qualitative factors of each reporting unit to determine if it was more likely than not that the fair value of the reporting unit was less than its carrying amount. Based upon the qualitative assessments, it was determined that it was not more likely than not that the fair values of the reporting units were less than the carrying values. For our GS reporting unit, however, a quantitative step one impairment assessment was performed as of December 31, 2015. We compared the carrying value of the GS reporting unit to its estimated fair value noting that the fair value exceeded carrying value by 63%. As a result, no goodwill impairment charges were recognized during the year ended December 31, 2015. Although the valuation of the business supported its carrying value in 2015, a deterioration in any of the assumptions discussed in Note 6 – “Goodwill and Other Intangible Assets” in the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of this report, could result in an additional impairment charge in the future.

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Self-Insured Liabilities		
We are self-insured for certain losses related to health insurance and workers' compensation claims that are below insurable limits. However, we obtain third-party insurance coverage to limit our exposure to claims in excess of insurable limits. When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, plan structure, internal claims management activities, demographic factors and severity factors. Periodically, management reviews its assumptions to determine the adequacy of our self-insured liabilities. Our liabilities for health insurance and workers' compensation claims as of December 31, 2015 were \$3.0 million and \$1.3 million, respectively.	Our self-insured liabilities contain uncertainties because management is required to make assumptions and to apply judgment to estimate the ultimate total cost to settle reported claims and claims incurred but not reported ("IBNR") as of the balance sheet date.	We have not made any material changes in the accounting methodologies used to establish our self-insured liabilities during 2015 and 2014. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% change in our self-insured liabilities related to health insurance and workers' compensation as of December 31, 2015 would have impacted our net income for 2015 by approximately \$0.3 million.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Stock-Based Compensation		
We have stock-based compensation programs, which include options, stock appreciation rights ("SARs") and restricted stock awards. See Note 1 – "Summary of Significant Accounting Policies" and Note 13 – "Stock Incentive Plans" in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report for a complete discussion of our stock-based compensation programs. We have not granted any stock options or SARs over the last three years. We determine the fair market value of our	The stock compensation expense recorded is impacted by our estimated forfeiture rates, which are based on historical forfeitures.	We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material or the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based

restricted stock based on the closing stock price of Kforce's common stock on the date of grant.		compensation. A 10% change in unrecognized stock-based compensation expense would have impacted our net income by $1.1 million for 2015.

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Defined Benefit Pension Plan – U.S.		
We have a defined benefit pension plan that benefits certain named executive officers, the Supplemental Executive Retirement Plan ("SERP"). See Note 11 – "Employee Benefit Plans" in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report for a complete discussion of the terms of this plan. The SERP was not funded as of December 31, 2015 or 2014.	When estimating the obligation for our pension benefit plan, management is required to make certain assumptions and to apply judgment with respect to determining an appropriate discount rate, bonus percentage assumptions and expected effect of future compensation increases for the participants in the plan.	We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our obligation. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% change in the discount rate used to measure the net periodic pension cost for the SERP during 2015 would have had an insignificant impact on our net income for 2015.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Accounting for Income Taxes		
See Note 4 – "Income Taxes" in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report for a complete discussion of the components of Kforce's income tax expense, as well as the temporary differences that exist as of December 31, 2015.	Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we conduct business. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions, including those that may be uncertain. Kforce is also required to exercise judgment with respect to the realization of our net deferred tax assets. Management evaluates all positive and negative evidence and exercises judgment regarding past and future events to determine if it is more likely than not that all or some portion of the deferred tax assets may not be realized. If appropriate, a valuation allowance is recorded against deferred tax assets	We do not believe that there is a reasonable likelihood that there will be a material change in our liability for uncertain income tax positions or our effective income tax rate. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses that could be material. Kforce recorded a valuation allowance of approximately $0.1 million as of December 31, 2015 related primarily to state net operating losses. A 0.50% change in our effective income tax rate would have impacted our net income for 2015 by approximately $0.4 million.

to offset future tax benefits that may not be realized.

Table of Contents

NEW ACCOUNTING STANDARDS

See Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data of this report for a discussion of new accounting standards.

RESULTS OF OPERATIONS

Net service revenues for the years ended December 31, 2015, 2014 and 2013 were approximately $1.32 billion, $1.22 billion and $1.07 billion, respectively, which represents an increase of 8.4% from 2014 to 2015 and 13.4% from 2013 to 2014. The increase in 2015 from 2014 was composed of increases of 6.3% in our Tech segment (which represented 67.9% of total net service revenues in 2015) and 17.7% in our FA segment (which represented 24.7% of total net service revenues in 2015), and a decrease of 0.7% in our GS segment (which represented 7.4% of total net service revenues in 2015). The increase in 2014 from 2013 was composed of increases of 13.9% in our Tech segment (which represented 69.2% of total net service revenues in 2014), 14.2% in our FA segment (which represented 22.7% of total net service revenues in 2014) and 6.6% in our GS segment (which represented 8.1% of total net service revenues in 2014). Flex revenues increased 8.1% in 2015 compared to 2014 and increased 14.2% in 2014 compared to 2013. Direct Hire revenues increased 15.8% in 2015 compared to 2014 and decreased 3.6% in 2014 compared to 2013.

Flex gross profit margins increased 50 basis points to 28.5% for the year ended December 31, 2015 as compared to 28.0% for the year ended December 31, 2014. The increase is due primarily to an expansion in the spread between our bill rates and pay rates in the FA segment, improved profitability from our GS segment, and a more favorable payroll tax environment as compared to 2014. Flex gross profit margins decreased 90 basis points to 28.0% for the year ended December 31, 2014 from 28.9% for the year ended December 31, 2013. The decrease was due primarily to the impact of a change in spread between our bill rates and pay rates as a result of higher concentration of our revenue growth coming from larger, lower-margin profile clients and an increase in benefit costs. SG&A expenses as a percentage of net service revenues were 25.0%, 25.9% and 28.7% for the years ended December 31, 2015, 2014 and 2013, respectively. The decreases in SG&A expenses as a percentage of net service revenues were primarily driven by leverage provided by our revenue growth and a decrease in compensation, commission, payroll taxes and benefit related costs.

Additionally, during the year ended December 31, 2013, Kforce recorded a goodwill impairment charge of $14.5 million in our GS reporting unit. The impairment charge was a result of a business strategy decision made during the fourth quarter of 2013, regarding the GS reporting unit, to focus its service offerings and efforts on prime integrated business solutions opportunities with the Federal Government.

Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. 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 BLS. Total temporary employment increased 3.3% year-over-year and the penetration rate remained near record levels at 2.06% in December 2015. While the macro-employment picture remains uncertain, it has continuously improved, with the unemployment rate at 5.0% as of December 2015, and non-farm payroll expanding an average of 221,000 jobs per month in 2015. Also, 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, was at 2.5% in December 2015. Further, we believe that the unemployment rate in the specialties we serve is lower than the published averages, which we believe speaks to the demand environment in which we are operating. Management believes that uncertainty in the overall U.S. economic outlook related to the political landscape, potential tax changes, geo-political risk and impact of health care reform, may continue to fuel growth in temporary staffing as employers may be reluctant to increase full-time hiring. Additionally, we believe the increasing costs and government regulation of employment may be driving a secular shift to an increased use of temporary staff as a percentage of total workforce. Given the near record levels of the penetration rate, we believe that our Flex revenues may grow 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; however, the economic environment includes considerable uncertainty and volatility and therefore no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular.

Table of Contents

Over the last few years, we have undertaken and continue to progress on 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 talent to capitalize on targeted growth opportunities; (4) further defining and monitoring our client portfolio to ensure appropriate focus and prioritization; (5) further optimizing our NRC team in support of our field operations; (6) upgrading our corporate systems; (7) focusing on process improvements; and (8) divesting of HIM, which we considered a non-core business. We believe our realigned field operations and revenue-enabling operations models 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 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 Consolidated Statements of Operations and Comprehensive Income for the years ended:

	December 31,					
	2015		2014		2013	
Revenues by Segment:						
Tech	67.9	%	69.2	%	68.9	%
FA	24.7		22.7		22.6	
GS	7.4		8.1		8.5	
Net service revenues	100.0	%	100.0	%	100.0	%
Revenues by Type:						
Flex	95.9	%	96.2	%	95.5	%
Direct Hire	4.1		3.8		4.5	
Net service revenues	100.0	%	100.0	%	100.0	%
Gross profit	31.4	%	30.8	%	32.1	%
Selling, general and administrative expenses	25.0	%	25.9	%	28.7	%
Goodwill impairment	—	%	—	%	1.4	%
Depreciation and amortization	0.7	%	0.8	%	0.9	%
Income from continuing operations, before income taxes	5.4	%	3.9	%	1.0	%
Income from continuing operations	3.2	%	2.4	%	0.5	%
Net income	3.2	%	7.5	%	1.0	%

Table of Contents

The following table details net service revenues for Flex and Direct Hire by segment and changes from the prior year (in thousands):

	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Tech					
Flex	$873,609	6.1 %	$823,311	14.3 %	$720,179
Direct Hire	22,333	16.6 %	19,158	(0.1)%	19,183
Total Tech	$895,942	6.3 %	$842,469	13.9 %	$739,362
FA					
Flex	$294,186	18.0 %	$249,274	16.9 %	$213,158
Direct Hire	31,738	15.3 %	27,537	(5.9)%	29,259
Total FA	$325,924	17.7 %	$276,811	14.2 %	$242,417
GS					
Flex	$97,372	(0.7)%	$98,051	6.6 %	$91,949
Total GS	$97,372	(0.7)%	$98,051	6.6 %	$91,949
Total Flex	$1,265,167	8.1 %	$1,170,636	14.2 %	$1,025,286
Total Direct Hire	54,071	15.8 %	46,695	(3.6)%	48,442
Total Net Service Revenues	$1,319,238	8.4 %	$1,217,331	13.4 %	$1,073,728

Certain quarterly revenue trends are referred to in discussing annual comparisons. Our quarterly operating results are affected by the number of billing days in a quarter, which is provided in the table below. The following 2015 quarterly information is presented for informational purposes only (in thousands, except Billing Days).

	Three Months Ended							
	December 31		September 30		June 30		March 31	
	Revenues	Year-Over-Year Growth Rates	Revenues	Year-Over-Year Growth Rates	Revenues	Year-Over-Year Growth Rates	Revenues	Year-Over-Year Growth Rates
Flex								
Tech	$212,917	0.2 %	$226,381	6.6 %	$225,873	9.6 %	$208,438	8.3 %
FA	78,512	15.7 %	76,707	19.4 %	72,773	21.2 %	66,194	15.9 %
GS	22,857	(13.9)%	24,351	(1.8)%	24,264	1.3 %	25,900	13.7 %
Total Flex	$314,286	2.4 %	$327,439	8.7 %	$322,910	11.3 %	$300,532	10.4 %
Direct Hire								
Tech	$5,109	7.8 %	$5,732	6.7 %	$6,291	24.9 %	$5,201	29.8 %
FA	8,304	15.7 %	8,404	17.9 %	8,152	7.9 %	6,878	21.0 %
Total Direct Hire	$13,413	12.6 %	$14,136	13.1 %	$14,443	14.7 %	$12,079	24.7 %
Total								
Tech	$218,026	0.4 %	$232,113	6.6 %	$232,164	9.9 %	$213,639	8.7 %
FA	86,816	15.7 %	85,111	19.2 %	80,925	19.7 %	73,072	16.4 %
GS	22,857	(13.9)%	24,351	(1.8)%	24,264	1.3 %	25,900	13.7 %
Total	$327,699	2.8 %	$341,575	8.8 %	$337,353	11.4 %	$312,611	10.8 %
Billing Days	62		64		64		63	

Table of Contents

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.

Flex revenues for our largest segment, Tech, increased 6.1% during the year ended December 31, 2015 as compared to 2014 and increased 14.3% in 2014 from 2013. In the second half of 2015, we experienced deceleration in our year-over-year quarterly growth rates, which were 9.6% in the second quarter, 6.6% in the third quarter and 0.2% in the fourth quarter of 2015. This deceleration was primarily the result of several large clients decreasing their spending with Kforce as a result of conditions which we believe are temporary in nature, arising after certain significant organizational changes within these clients. We do not believe this decrease in spending represents a fundamental longer-term shift in spend. A September 2015 report published by SIA stated that temporary technology staffing is expected to experience growth of 6% in 2015 and an additional 6% in 2016. We believe that the broad-based drivers to the demand in technology staffing such as cloud-computing, data analytics, mobility and cybersecurity will continue and that we are well positioned in this space. The Firm believes the Tech segment will continue to grow year-over-year in 2016 due to the market strength, the opportunities we see with our clients and the investments in revenue-generating resources that we intend to assign to growing priority client accounts.

Our FA segment experienced an increase in Flex revenues of 18.0% during the year ended December 31, 2015 as compared to 2014 and increased 16.9% in 2014 from 2013. In its September 2015 update, SIA stated that finance and accounting staffing is expected to 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 talent added in FA Flex in the last few years. The Firm believes the FA segment will continue to achieve year-over-year growth in 2016.

Our GS segment experienced a decrease in net service revenues of 0.7% during the year ended December 31, 2015 as compared to 2014 and increased 6.6% in 2014 from 2013. There remains continued uncertainty within this segment due to an increase in competition and the lowest price technically acceptable government procurement environment. Our GS segment had a significant amount of its contracts go through a standard recompete cycle with the Federal Government and retained each of these contracts. The Firm believes the GS segment will grow in 2016.

The following table details total Flex hours for our Tech and FA segments and percentage changes over the prior period for the years ended December 31 (in thousands):

	2015	Increase (Decrease)		2014	Increase (Decrease)		2013
Tech	12,885	7.2	%	12,024	10.0	%	10,929
FA	9,008	17.1	%	7,691	17.4	%	6,550
Total hours	21,893	11.0	%	19,715	12.8	%	17,479

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

The increase in Flex revenues for Tech for the year ended December 31, 2015 compared to the year ended December 31, 2014 was $50.3 million, composed of a $58.5 million increase in volume, a $7.7 million decrease in bill rate and a $0.5 million decrease from the impact of billable expenses. The increase in Flex revenues for FA for the year ended December 31, 2015 compared to the year ended December 31, 2014 was $44.9 million, composed of a $42.6 million increase in volume and a $2.3 million increase in bill rate. The increase in Flex revenues for Tech for the year ended December 31, 2014 compared to the year ended December 31, 2013 was $103.1 million, composed of a $71.6 million increase in volume, a $31.0 million increase in bill rate and a $0.5 million increase from the impact of billable expenses. The increase in Flex revenues for FA for the year ended December 31, 2014 compared to the year ended December 31, 2013 was $36.1 million, composed of a $37.0 million increase in volume, a $0.8 million decrease in bill rate and a $0.1 million decrease from the impact of billable expenses.

Table of Contents

The changes in billable expenses, which are included as a component of net services revenues, are primarily attributable to project-based work. Flex billable expenses for each of our segments were as follows for the years ended December 31 (in thousands):

	2015	Increase (Decrease)		2014	Increase (Decrease)		2013
Tech	$5,584	(8.4	)%	$6,093	8.2	%	$5,630
FA	282	(8.7	)%	309	(27.0	)%	423
GS	363	(7.2	)%	391	12.4	%	348
Total billable expenses	$6,229	(8.3					