Great People = Great Results℠

KFORCE®

ANNUAL REPORT 2015

KFORCE® is a professional staffing and solutions firm specializing in the areas of technology and finance & accounting, serving both commercial and government organizations. Headquartered in Tampa, Florida, Kforce has been matching highly skilled talent and employers since 1962. Today, Kforce provides staffing services and innovative solutions through more than sixty offices located throughout the United States, as well as two national recruiting centers. With a commitment to "Great People = Great Results," Kforce is dedicated to being the Firm most respected by those we serve. For more information, please visit www.kforce.com.

TECHNOLOGY

As the 6th largest technology staffing firm in the U.S., we engage more than 14,000 consultants annually in technology roles on a temporary, consulting and direct-hire basis.

Our Technology professionals range from project managers to developers to data and network architects and technicians:

- **PROJECT MANAGEMENT AND BUSINESS ANALYSIS** offers a full suite of functional professionals to support the full scope of your initiative.
- **APPLICATION DEVELOPMENT** supports applications and systems software creation and maintenance.
- **ENTERPRISE DATA MANAGEMENT** supports any operating environment from unstructured to mature Big Data.
- **INFRASTRUCTURE** specializes in providing reliable infrastructure support to build and maintain the backbone of your organization.

FINANCE & ACCOUNTING

As the 4th largest finance and accounting staffing firm in the U.S., we engage more than 15,000 highly skilled professionals annually in finance and accounting roles on a temporary, consulting and direct-hire basis.

Our Finance & Accounting professionals range from strategic and operational to transactional and professional administration:

- **OPERATIONAL AND TECHNICAL** professionals perform day-to-day accounting and staff-level analysis, which includes directing, controlling and planning.
- **TRANSACTIONAL** functions include Accounts Receivable, Accounts Payable and Payroll.
- **PROFESSIONAL ADMINISTRATION** tasks include Loan Servicing, Benefits Administration, Customer Service/Call Center, Data Entry, Human Resources and Professional Administrative Support.

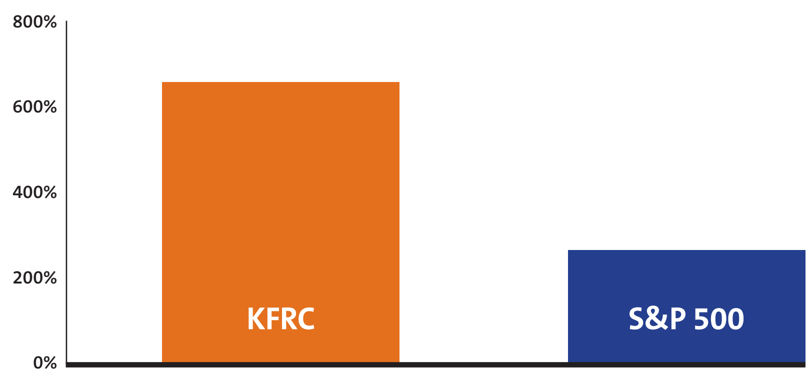
GOVERNMENT SOLUTIONS

Kforce Government Solutions (KGS), a wholly-owned subsidiary of Kforce, is a government contracting services and solutions provider that has offered a comprehensive portfolio of solutions to a wide range of Federal and Defense agencies since 1970. Headquartered in Fairfax, VA with offices in San Antonio, TX and Tampa, FL:

- **KGS** offers a full range of solutions in the areas of Healthcare Informatics, Financial Management and Accounting, Enterprise Technology, Engineering and Intelligence.

This Annual Report contains forward-looking statements (within the meaning of the federal securities laws). Please see the "Special Note Regarding Forward-Looking Statements" contained in the introductory portion of our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information regarding forward-looking statements.

The total shareholder return on our stock has been 660%, outperforming the S&P 500 Index, which has returned 266% over the same period.



Kforce stock performance vs. S&P 500 from 8/15/95 (IPO) to 12/31/15

TO OUR FELLOW SHAREHOLDERS, CLIENTS AND EMPLOYEES:

We are pleased with full-year financial results for 2015. Kforce reported record annual revenues of $1.32 billion in 2015, an increase of 8.4% from $1.22 billion in 2014. Net income for the year ended December 31, 2015 was $42.8 million, or $1.52 per share, which represented an increase of 45.7%, or 63.4% per share, compared to income and earnings per share from continuing operations for the year ended December 31, 2014 of $29.4 million, or $0.93 per share. This represents the second consecutive year of approximately 50% earnings per share growth from continuing operations. During 2015, we returned $49.2 million to shareholders in the form of $36.7 million in share repurchases on the open market and $12.5 million in dividends. In the fourth quarter, we also increased our quarterly dividend for the second consecutive year. We are continually evaluating our use of capital to include share repurchases, debt retirement and acquisitions, and though we would point out that Kforce has not completed an acquisition in seven years, we maintain our focus on organic growth.

We believe the staffing industry is healthy, with domestic specialty skilled firms like Kforce leading the way, driven by both secular and cyclical forces. The overall employment environment improved in 2015 with the addition of 2.7 million non-farm jobs and the decline of unemployment to 5.0%. Of particular note to staffing, temporary workers as a percentage of the total workforce ended the year at 2.06%, near record levels. Even more relevant to Kforce given our focus on highly skilled knowledge workers, the college-level unemployment rate was 2.5%, about half the overall unemployment rate. Against this backdrop, both our Technology ("Tech Flex") and Finance and Accounting ("FA Flex") businesses continued their growth trends in 2015. Both sectors are projected by Staffing Industry Analysts (SIA) to continue their growth trajectory for the next several years. In what has been an uneven economic recovery, and now a highly uncertain macro-economic environment as well, we believe our industry continues to experience a secular shift as our clients seek workforce flexibility and just-in-time skilled labor. In addition, the ever-expanding regulatory environment and heightened scrutiny, particularly around employee classification, have created a higher risk employment environment for clients. We believe these trends will cause our clients to continue to rely on larger staffing firms with robust compliance infrastructures as their solution of choice for human capital.

In the New Era, that we began in late 2012, we have narrowed our focus, simplified our business model and raised accountability. We believe that our stakeholders are better served by our refined focus on domestic technology and finance & accounting staffing. In 2016, the market for technology staffing is projected to approach $28.9 billion and the finance & accounting staffing market is projected to be $7.9 billion. We believe we have an opportunity to improve upon our approximate 3% market share in each of these markets and better serve our current clients and consultants.

Our 2015 success reflects the results of our executive team's strategic decisions over the past three years. We have simplified our business model to narrow our focus on our core offerings and accelerated investment in revenue-generating talent to build a model that we believe will drive sustained organic revenue growth. We fostered stronger partnerships with our Premier Partner clients and sought optimization and efficiencies in our revenue enablement support functions. We believe a greater understanding of client dynamics has laid the foundation for continued growth. We believe this, along with continued improvement of internal operating efficiencies, has put Kforce squarely on the path to achieve operating margins of 7.5% when we reach $1.6 billion in annualized revenues.

Looking at our business by service line in 2015:

- Revenues for our largest business unit, Tech Flex, of $873.6 million represented 66.2% of our total net service revenues. Tech Flex revenues increased 6.1% in 2015 over 2014. Our Tech Flex business focuses 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. We look forward to continued demand for our Tech Flex business with the goal of increasing market share. As we moved into the second half of 2015, we experienced deceleration in year-over-year Tech Flex growth rates. This deceleration was greater than we had anticipated due predominantly, we believe, to specific large client dynamics, as a result of internal organization changes and other business disruptions. We experienced early project ends and a slowdown in hiring, and believe the activities at these few clients are very natural given the magnitude of the changes. Recent communications with these customers lead us to anticipate that there are extensive projects planned, but awaiting budget approval. We continue to believe that these client-specific headwinds are shorter term in nature and not a fundamental longer-term shift in spend.

  We are also working to further diversify our portfolio by increasing our emphasis on other existing significant clients. These clients are the lead focus for a large portion of our accelerated hiring of Tech Flex sales associates in the fourth quarter of 2015. Despite the recent uncertainties in the macro-economic environment and deceleration in growth rates more broadly in technology staffing, we are seeing continued solid demand in the specialties that we serve. Much of our clients' spend today is driven by their focus on developing and enhancing their customer-facing applications and technologies to improve their customers' experience as they deliver online products and services. In addition to mobility, we continue to see big data, data security, project/program management, and post-recession IT rebuilding fueling needs for talent in virtually all commercial IT organization roles.

- Revenues for our FA Flex business of $294.2 million represented 22.3% of our total net service revenues. FA Flex revenues increased 18.0% in 2015 over 2014, almost doubling the SIA industry average, and overall demand for our core FA Flex business remains strong. Our FA Flex business focuses 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. We believe opportunity exists to take additional market share during 2016, driven by our strategy of diversifying our client portfolio and leveraging our National Recruiting Center for projects that continue to provide growth, particularly around revenue cycle engagements where we have increased our investment.

- Revenues for our Government Solutions ("GS") segment of $97.4 million represented 7.4% of our total net service revenues. GS revenues decreased 0.7% in 2015 compared to 2014. 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, as well as a product business specializing in manufacturing and delivering trauma-training manikins to federal, state and local governments. Government contractors may continue to see the negative impacts from the challenging federal procurement environment that could impact GS in the future.

- Direct Hire (formerly referred to as "Search") revenues of $54.1 million represented 4.1% of our total net service revenues. Direct Hire revenues increased 15.8% in 2015 over 2014. We provide direct hire services to our clients in both Tech and FA. We have made selective investments to meet client demand and continued to add to our existing strong teams. Demand appears solid as clients seek to secure hard-to-find talent. As a result, we saw a marked increase in conversions (flexible resources converted to full-time employment by our clients) in 2015.

We are continuously evaluating and updating our strategy, including our technology platform and service offerings, to drive efficiencies that enhance our customer experience and improve speed to market. We will also look to make opportunistic investments in technology that will enhance our business analytics, improve consultant match and sales strategies, and strengthen customer relationships as well as drive further efficiencies across our platform. We will maintain a watchful eye toward the investments that we have made, and will continue to make, and we remain cautiously optimistic.

In August of 2015, Kforce proudly celebrated its 20th anniversary as a publicly traded company. Over that 20-year period, according to SIA, U.S. staffing revenue grew from $52 billion to an estimated $134 billion, and professional staffing grew as a percent of overall staffing from 31% to 48%. As secular trends and economic indicators continue to move favorably, we believe our footprint and strategic decisions position us well for future success. We are very focused on those actions we believe are necessary to reaccelerate revenue growth, particularly in our Tech Flex business. We anticipate that an acceleration in hiring, particularly in Tech Flex sales, along with diversification within our client base should allow us to reaccelerate revenue growth while generating significant returns for our shareholders. The demand environment remains positive and our client relationships are strong. We continue to manage our investments and profitability and look for opportunities to return capital to our shareholders in the form of dividends and share repurchases. We are also very proud that Stewardship and Community, a Kforce Core Value, is a way for our *Great People* to give back to their communities and support charities, organizations, and people in need by contributing time and making a difference in the lives of others. In 2015, Kforce employees spent approximately 12,000 hours supporting more than 500 charities nationwide, as well as participating in a number of international charitable initiatives.

We are very optimistic about our prospects in 2016 and beyond and appreciate your continued interest and support. Thanks to each and every member of our field and corporate teams, as well as to our consultants, clients and shareholders, for allowing us the privilege of serving you.

David L. Dunkel
Chairman and
Chief Executive Officer

Joseph J. Liberatore
President

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 Kforce's Consolidated Financial Statements and the related notes thereto incorporated into this Annual Report, hereinafter collectively referred to as "Consolidated Financial Statements."

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.

(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.

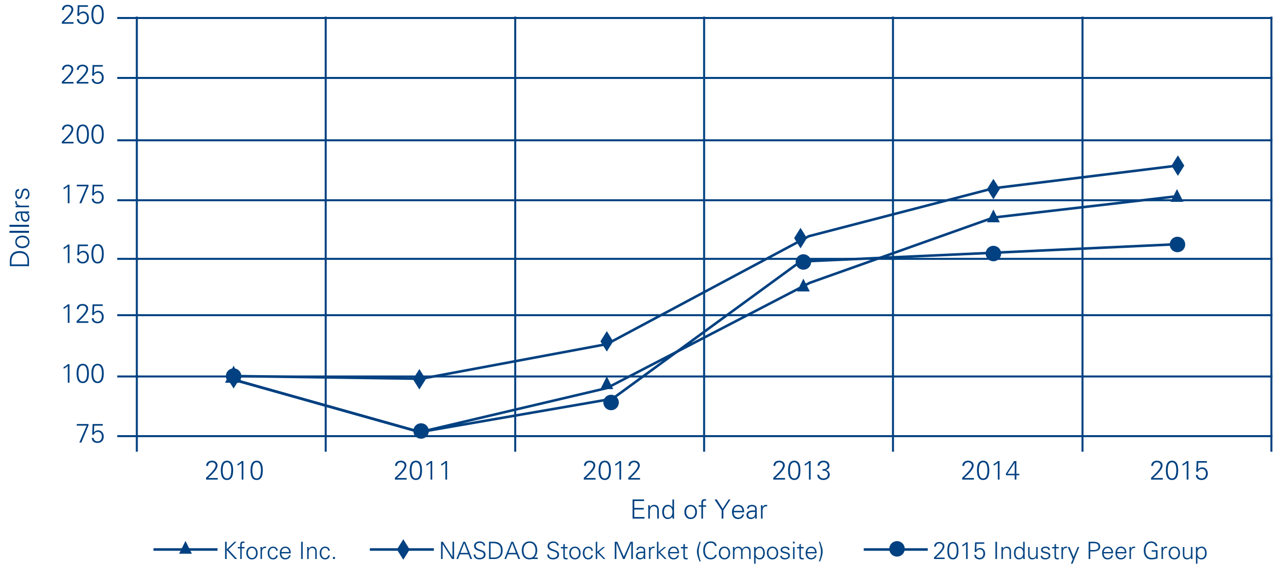
(4) Kforce recognized a goodwill impairment charge of $69.2 million related to the GS reporting unit during 2012. The tax benefit associated with this impairment charge was $24.7 million, resulting in an after-tax impairment charge of $44.5 million.

(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.

STOCK PRICE PERFORMANCE

The following graph is a comparison of the cumulative total returns for Kforce common stock as compared with the cumulative total return for the 2015 Industry Peer Group and the NASDAQ Stock Market (U.S.) Index ("NASDAQ"). Kforce's cumulative return was computed by dividing the difference between the price of Kforce common stock at the end of each year and the beginning of the measurement period (December 31, 2010 to December 31, 2015) by the price of Kforce common stock at the beginning of the measurement period. Cumulative total returns for Kforce, the 2015 Industry Peer Group and the NASDAQ include dividends in the calculation of total return and are based on an assumed $100 investment on December 31, 2010, with all returns weighted based on market capitalization at the end of each discrete measurement period. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Kforce common stock. For purposes of the TSR graph below, Kforce has been excluded from the 2015 Industry Peer Group.



Investment of $100 on December 31, 2010	2010	2011	2012	2013	2014	2015
Kforce Inc.	100.0	76.2	95.7	137.3	165.0	176.1
NASDAQ Stock Market (Composite)	100.0	98.2	113.8	157.4	178.5	188.8
2015 Industry Peer Group (1)	100.0	76.5	92.2	147.4	151.0	154.8

(1) Our 2014 Industry Peer Group included Ciber, Inc. which was removed due to lack of comparability in market capitalization and size of the company, and was replaced with Kelly Services, Inc. We have excluded the 2014 Industry Peer Group from the graph above as the 2014 and 2015 Industry Peer Groups' cumulative total returns were very similar.

2015 Industry Peer Group:

CDI Corporation
Computer Task Group Inc.
Kelly Services, Inc.
Manpower Inc.
On Assignment, Inc.
Resources Connection, Inc.
Robert Half International Inc.
TrueBlue Inc.

The industry peer group is one of the building blocks of the executive compensation program because it provides the Committee with benchmarking data and insight into external compensation practices. In determining the industry peer group, we focus on selecting publicly traded staffing companies that are active in recruiting and placing similar skill sets at similar types of clients. 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.

The industry peer group comparison provides information about pay levels, pay practices and performance. In addition to the specific staffing industry in which companies operate, other primary criteria for peer group selection includes peer company customers, revenue footprint (i.e., revenues derived from different industries as a percentage of total revenues), geographical presence, talent, capital, size (i.e., total revenues, market capitalization and domestic presence), complexity of operating model and companies with which we compete for executive level talent.

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the risks inherent in its operations, Kforce is exposed to certain market risks, primarily changes in interest rates.

As of December 31, 2015, we had $80.5 million outstanding under our Credit Facility. Our weighted average effective interest rate on our Credit Facility was 1.95% at December 31, 2015. A hypothetical 10% increase in interest rates in effect at December 31, 2015 would have an increase to Kforce's annual interest expense of less than $0.2 million.

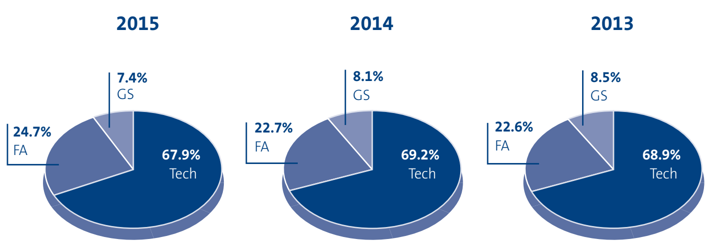
We do not believe that we have a material exposure to fluctuations in foreign currencies because our international operations represented less than 2% of net service revenues for the year ended December 31, 2015, and because our international operations' functional currency is the U.S. Dollar. However, Kforce will continue to assess the impact which currency fluctuations could have on our operations going forward.

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.

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").

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.

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.

This section 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 this Annual Report as well as Business Overview 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.

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.

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 this Annual 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 this Annual 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.
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 this Annual 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 this Annual Report, could result in an additional impairment charge in the future.

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.
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 this Annual 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 restricted stock based on the closing stock price of Kforce's common stock on the date of grant.	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 compensation. A 10% change in unrecognized stock-based compensation expense would have impacted our net income by $1.1 million for 2015.
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 this Annual 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.
ACCOUNTING FOR INCOME TAXES See Note 4—"Income Taxes" in the Notes to Consolidated Financial Statements, included in this Annual 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 to offset future tax benefits that may not be realized.	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.

NEW ACCOUNTING STANDARDS

See Note 1—"Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in this Annual 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.

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%

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**	

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.

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)%**	$6,793	6.1%	$6,401

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

Direct Hire revenues increased 15.8% during the year ended December 31, 2015 as compared to 2014. Direct Hire revenues decreased 3.6% during the year ended December 31, 2014 as compared to 2013.

Total placements for our Tech and FA segments were as follows for the years ended December 31:

	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Tech	**1,395**	**16.9%**	1,193	(2.4)%	1,222
FA	**2,505**	**11.0%**	2,256	(7.9)%	2,449
Total placements	**3,900**	**13.1%**	3,449	(6.0)%	3,671

The average fee per placement for our Tech and FA segments were as follows for the years ended December 31:

	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Tech	**$16,014**	**(0.3)%**	$16,062	2.3%	$15,695
FA	**12,668**	**3.8%**	12,205	2.2%	11,946
Total average placement fee	**$13,864**	**2.4%**	$13,539	2.6%	$13,194

The increase in Direct Hire revenues from 2014 to 2015 was $7.4 million, composed of a $6.1 million increase in volume and a $1.3 million increase in rate. The decrease in Direct Hire revenues from 2013 to 2014 was $1.7 million, composed of a $2.9 million decrease in volume, partially offset by a $1.2 million increase in rate.

Gross Profit. Gross profit on Flex billings is determined by deducting the direct cost of services (primarily flexible personnel payroll wages, payroll taxes, payroll-related insurance, and subcontractor costs) from net Flex service revenues. In addition, consistent with industry practices, gross profit dollars from Direct Hire fees are equal to revenues, because there are generally no direct costs associated with such revenues. As noted above, our GS segment does not make permanent placements; as a result, its gross profit percentage is the same as its Flex gross profit percentage.

The following table presents, for each segment, the gross profit percentage (gross profit as a percentage of revenues) for the year, as well as the increase or decrease over the preceding period, as follows:

	2015	**Increase (Decrease)**	2014	Increase (Decrease)	2013
Tech	**29.2%**	**1.0%**	28.9%	(2.7)%	29.7%
FA	**36.5%**	**—%**	36.5%	(5.4)%	38.6%
GS	**34.3%**	**10.6%**	31.0%	(9.1)%	34.1%
Total gross profit percentage	**31.4%**	**1.9%**	30.8%	(4.0)%	32.1%

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

The following table presents, for each segment, the Flex gross profit percentage for the years ended December 31:

	2015	**Increase (Decrease)**	2014	Increase (Decrease)	2013
Tech	**27.4%**	**0.7%**	27.2%	(2.2)%	27.8%
FA	**29.7%**	**0.7%**	29.5%	(2.3)%	30.2%
GS	**34.3%**	**10.6%**	31.0%	(9.1)%	34.1%
Total Flex gross profit percentage	**28.5%**	**1.8%**	28.0%	(3.1)%	28.9%

The increase in Flex gross profit from 2014 to 2015 was $32.2 million, composed of a $26.5 million increase in volume and a $5.7 million increase in rate. The increase in Flex gross profit from 2013 to 2014 was $32.0 million, composed of a $42.0 million increase in volume, partially offset by a $10.0 million decrease in rate.

The increase in Flex gross profit percentage of 50 basis points in 2015 from 2014 was due primarily to an increase 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 as compared to 2014. A continued focus for Kforce is optimizing the spread between bill rates and pay rates by providing our associates with tools, economic knowledge and defined programs to drive improvement in the effectiveness of our pricing strategy around the staffing services we provide. We believe this strategy will serve to balance the desire for optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, our consultants and Kforce.

Selling, General and Administrative ("SG&A") Expenses. For the years ended December 31, 2015, 2014 and 2013, total commissions, compensation, payroll taxes, and benefit costs as a percentage of SG&A represented 84.2%, 84.8%, and 85.9%, respectively. Commissions, certain revenue-generating bonuses and related payroll taxes and benefit costs are variable costs driven primarily by revenue and gross profit levels, and associate performance. Therefore, as gross profit levels change, these expenses would also generally be anticipated to change, but remain relatively consistent as a percentage of revenues.

The following table presents these components of SG&A along with an "other" caption, which includes bad debt expense, lease expense, professional fees, travel, telephone, computer and certain other expenses, as an absolute amount and as a percentage of total net service revenues for the years ended December 31 (in thousands):

	2015	**% of Revenues**	2014	% of Revenues	2013	% of Revenues
Compensation, commissions, payroll taxes and benefits costs	**$278,207**	**21.1%**	$267,471	22.0%	$264,636	24.7%
Other	**52,209**	**3.9%**	47,867	3.9%	43,308	4.0%
Total SG&A	**$330,416**	**25.0%**	$315,338	25.9%	$307,944	28.7%

SG&A as a percentage of net service revenues decreased 90 basis points in 2015 compared to 2014. This was primarily attributable to a decrease in compensation, commissions, payroll taxes and benefits costs of 0.9% of net service revenues, which was primarily a result of a reduction in salaries and wages, benefits costs and a decrease in commissions, driven by changes made to our compensation plans to drive improvement in associate productivity. We continue to be diligent with managing our SG&A expenses and expect to generate further leverage in 2016 as revenues grow, which may be partially offset by an investment in revenue-generating talent and certain technology initiatives.

SG&A as a percentage of net service revenues decreased 280 basis points in 2014 compared to 2013. This was primarily attributable to a decrease in compensation, commissions, payroll taxes and benefits cost of 2.7% of net service revenues, which was primarily a result of a reduction in compensation expense due to the organizational realignment executed by the Firm during the fourth quarter of 2013, as well as a decrease in the annual effective commission rate due to certain changes made to our compensation plans.

Goodwill Impairment. During the year ending December 31, 2015, for our Tech and FA reporting units, Kforce assessed the qualitative factors of each reporting unit concluding there were no impairments. For our GS reporting unit, Kforce performed a step one goodwill impairment analysis as of December 31, 2015 which resulted in no impairment. During the year ended December 31, 2014, Kforce performed a step one goodwill impairment analysis for each of its reporting units, which resulted in no impairments. During the fourth quarter of 2013, Kforce management made a strategic business decision with regard to the GS reporting unit to focus its service offerings and efforts on prime integrated business solutions and as a result we recorded an impairment charge on the GS reporting unit goodwill in the amount of approximately $14.5 million, with a related tax benefit of approximately $5.2 million during the year ended December 31, 2013.

Depreciation and Amortization. The following table presents depreciation and amortization expense by major category for the years ended December 31, 2015, 2014 and 2013, as well as the increases (decreases) experienced during 2015 and 2014 (in thousands):

	2015	**Increase (Decrease)**	2014	Increase (Decrease)	2013
Fixed asset depreciation	**$6,738**	**6.2%**	$6,345	8.2%	$5,863
Capitalized software amortization	**2,318**	**(20.2)%**	2,904	(10.3)%	3,236
Intangible asset amortization	**775**	**20.2%**	645	(13.7)%	747
Total depreciation and amortization	**$9,831**	**(0.6)%**	$9,894	0.5%	$9,846

Fixed Asset Depreciation: The $0.4 million increase in 2015 is primarily the result of the leasehold improvement additions made during 2015. The $0.5 million increase in 2014 is primarily the result of leasehold improvement and furniture and fixture additions made during 2014.

Capitalized Software Amortization: The $0.6 million decrease in 2015 is primarily the result of several capitalized software balances becoming fully amortized during 2015. The $0.3 million decrease in 2014 is primarily the result of software disposals during 2014.

Other Expense, Net. Other expense, net was $2.2 million in 2015, $1.4 million in 2014, and $1.1 million in 2013, and consists primarily of interest expense related to outstanding borrowings under our credit facility.

Income Tax Expense. For the year ending December 31, 2015, income tax expense as a percentage of income from continuing operations before income taxes (our "effective rate") was 40.3%. The 2015 rate was unfavorably impacted by a change in the overall mix of income in the various state jurisdictions and the increase in particular uncertain tax positions. For the year ending December 31, 2014, income tax expense as a percentage of income from continuing operations before income taxes was 38.7%. There were no individual items that had a material impact on Kforce's effective rate. For the year ending December 31, 2013, income tax expense as a percentage of income from continuing operations before income taxes was 51.6%, which was impacted by certain non-deductible meals and entertainment, the partially non-deductible goodwill impairment charge and certain other non-deductible expenses.

Income from Discontinued Operations, Net of Income Taxes. Discontinued operations for the years ended December 31, 2014 and 2013 include the consolidated income and expenses for HIM. During the three months ended September 30, 2014, Kforce completed the sale of HIM resulting in a pre-tax gain of $94.3 million. Included in the determination of the pre-tax gain is approximately $4.9 million of goodwill for HIM and transaction expenses totaling approximately $11.0 million, which primarily included legal fees, stock-based compensation related to acceleration of restricted stock due to change in control provisions, commissions and transaction bonuses.

Income tax expense as a percentage of income from discontinued operations, before income taxes, for the year ended December 31, 2014 and 2013 was 40.6% and 40.1%, respectively.

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

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

The following table presents Adjusted EBITDA and Adjusted EBITDA Per Share results and includes a reconciliation of Adjusted EBITDA to net income and Adjusted EBITDA Per Share to Earnings Per Share for the years ended December 31 (in thousands, except per share amounts):

Years Ended December 31,	**2015**	**Per Share**	2014	Per Share	2013	Per Share
Net income	**$42,824**	**$1.52**	$90,915	$2.87	$10,787	$0.32
Income from discontinued operations, net of income taxes	**—**	**—**	61,517	1.94	5,493	0.16
Income from continuing operations	**$42,824**	**$1.52**	$29,398	$0.93	$ 5,294	$0.16
Goodwill impairment, pre-tax	**—**	**—**	—	—	14,510	0.43
Depreciation and amortization	**9,831**	**0.35**	9,894	0.31	9,846	0.29
Stock-based compensation expense	**5,819**	**0.21**	2,969	0.09	2,555	0.07
Interest expense and other	**1,960**	**0.07**	1,396	0.04	1,212	0.04
Income tax expense	**28,848**	**1.02**	18,559	0.59	5,635	0.17
Adjusted EBITDA	**$89,282**	**$3.17**	$62,216	$1.96	$39,052	$1.16
Weighted average shares outstanding—basic	**27,910**		31,475		33,511	
Weighted average shares outstanding—diluted	**28,190**		31,691		33,643	

Free Cash Flow. "Free Cash Flow," a non-GAAP financial measure, is defined by Kforce as net cash provided by (used in) operating activities determined in accordance with GAAP, less capital expenditures. Management believes this provides useful information to investors about the amount of cash generated by the business that can be used for strategic opportunities, including investing in our business, making strategic acquisitions, repurchasing common stock and paying dividends.

The following table presents Free Cash Flow for the years ended December 31 (in thousands):

Years Ended December 31,	**2015**	2014	2013
Net income	**$ 42,824**	$ 90,915	$ 10,787
Gain on sale of discontinued operations	**—**	(64,600)	—
Goodwill impairment	**—**	—	14,510
Non-cash provisions and other	**21,602**	15,376	17,906
Changes in operating assets/liabilities	**5,754**	(67,273)	(42,738)
Capital expenditures	**(8,328)**	(6,011)	(8,145)
Free cash flow	**61,852**	(31,593)	(7,680)
Proceeds from disposition of business	**—**	117,887	—
Change in debt	**(12,861)**	30,726	41,607
Repurchases of common stock	**(38,471)**	(101,771)	(29,810)
Cash dividend	**(12,545)**	(12,776)	(3,297)
Other	**2,284**	(2,110)	(1,326)
Change in cash	**$ 259**	$ 363	$ (506)

LIQUIDITY AND CAPITAL RESOURCES

To meet our capital and liquidity requirements, we primarily rely on operating cash flow, as well as borrowings under our existing credit facility. At December 31, 2015, Kforce had $126.8 million in working capital compared to $130.2 million in 2014. Kforce's current ratio (current assets divided by current liabilities) was 2.4 at the end of 2015 and 2014, respectively.

The accompanying Consolidated Statements of Cash Flows for each of the three years ended December 31, 2015, 2014 and 2013 in this Annual Report provide a more detailed description of our cash flows. Currently, Kforce is principally focused on achieving the appropriate balance in the following areas of cash flow: (1) achieving positive cash flow from operating activities; (2) returning capital to our shareholders through our quarterly dividends and common stock repurchase program; (3) maintaining an appropriate outstanding balance on our credit facility; (4) investing in our infrastructure to allow sustainable growth via capital expenditures; and (5) having sufficient liquidity for the possibility of completing an acquisition or for an unexpected necessary expense.

We believe that existing cash and cash equivalents, cash flow from operations, and available borrowings under our credit facility will be adequate to meet the capital expenditure and working capital requirements of our operations for at least the next 12 months. However, a material deterioration in the economic environment or market conditions, among other things, could negatively impact operating results and liquidity, as well as the ability of our lenders to fund borrowings.

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

The following table presents a summary of our cash flows from operating, investing and financing activities, as follows (in thousands):

Years Ended December 31,	**2015**	2014	2013
Cash provided by (used in):			
Operating activities	**$ 70,180**	$ (25,582)	$ 465
Investing activities	**(8,364)**	110,535	(8,547)
Financing activities	**(61,557)**	(84,590)	7,576
Net increase (decrease) in cash and cash equivalents	**$ 259**	$ 363	$ (506)

Discontinued Operations

As was previously discussed, Kforce divested of HIM on August 4, 2014. The accompanying Consolidated Statements of Cash Flows have been presented on a combined basis (continuing operations and discontinued operations) for each of the years ended December 31, 2014 and 2013. Cash flows provided by discontinued operations for all prior periods were provided by operating activities and were not material to the capital resources of Kforce. In addition, the absence of cash flows from discontinued operations is not expected to have a significant effect on the future liquidity, financial position, or capital resources of Kforce.

Operating Activities

The significant variations in cash provided by operating activities and net income are principally related to adjustments to net income for certain non-cash charges such as depreciation and amortization expense and stock-based compensation, as well as gain on sale of discontinued operations and goodwill impairment charges in prior years. These adjustments are more fully detailed in our Consolidated Statements of Cash Flows for each of the three years ended December 31, 2015, 2014 and 2013, in this Annual Report. Our largest source of operating cash flows is the collection of trade receivables and our largest use of operating cash flows is the payment of our employee and consultant populations' compensation, which includes base salary, commissions and bonuses. When comparing cash flows from operating activities for the years ended December 31, 2015, 2014 and 2013, the increase in cash provided by operating activities during the year ended December 31, 2015 as compared to 2014 is primarily a result of improved timing of collections of accounts receivable as well as growth in our profitability. The increase in cash used in operating activities during the year ended December 31, 2014, as compared to 2013, is primarily a result of the increase in accounts receivable due to the timing of collections and certain tax payments made related to the HIM divestiture and resulting gain on sale.

Investing Activities

Capital expenditures during 2015, 2014 and 2013, which exclude equipment acquired under capital leases, were $8.3 million, $6.0 million and $8.1 million, respectively. Proceeds from the divestiture of HIM were $117.9 million during the year ended December 31, 2014.

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

Financing Activities

During the year ended December 31, 2015, the Firm paid cash for repurchases of common stock totaling $38.5 million, which was composed of approximately $37.1 million of open market common stock repurchases and $1.4 million of common stock repurchases attributable to shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock awards. Of the $37.1 million of open market common stock repurchases, $1.4 million of the cash paid during the year ended December 31, 2015 related to the settlement of 2014 repurchases. During 2014, Kforce paid cash for repurchases of common stock totaling $101.8 million, which was composed of approximately $100.2 million of open market common stock repurchases and $1.6 million of common stock repurchases attributable to shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock awards. During 2013, Kforce paid cash for repurchases of common stock totaling $29.8 million, which was composed of approximately $29.0 million of open market common stock repurchases (including the settlement of approximately $2.5 million of common stock repurchases from the fourth quarter of 2012) and $0.8 million of common stock repurchases attributable to shares withheld for statutory minimum tax withholding requirements pertaining to the vesting of restricted stock awards.

During the year ended December 31, 2015, Kforce declared and paid dividends in cash of $12.5 million, or $0.45 per share. During the year ended December 31, 2014, Kforce declared and paid dividends in cash of $12.8 million, or $0.41 per share. During the year ended December 31, 2013, Kforce declared and paid dividends in cash of $3.3 million, or $0.10 per share. 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.

Credit Facility

On September 20, 2011, Kforce entered into a Third Amended and Restated Credit Agreement, with a syndicate led by Bank of America, N.A. As subsequently amended on March 30, 2012, December 27, 2013 and on December 23, 2014 (as amended to date, the "Credit Facility"), the Credit Facility includes a maximum borrowing capacity of $170.0 million, as well as an accordion option of $50.0 million. The maximum borrowings available to Kforce under the Credit Facility are limited to: (a) a revolving Credit Facility of up to $170.0 million (the "Revolving Loan Amount") and (b) a $15.0 million sub-limit included in the Credit Facility for letters of credit. See Note 9—"Credit Facility" in the Notes to Consolidated Financial Statements, included in this Annual Report for a complete discussion of our Credit Facility.

Off-Balance Sheet Arrangements

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2015, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling $3.2 million, and for facility lease deposits totaling $0.5 million. Aside from certain obligations more fully described in the Contractual Obligations and Commitments section below, we do not have any additional off-balance sheet arrangements that have had, or are expected to have, a material effect on our consolidated financial statements.

Stock Repurchases

During the year ended December 31, 2014, Kforce repurchased approximately 4.9 million shares of common stock at a total cost of approximately $102.9 million under the Board-authorized common stock repurchase program. As of December 31, 2014, $29.7 million of the Board-authorized common stock repurchase program remained available for future repurchases. On July 31, 2015, our Board of Directors approved a $60.0 million increase to the then remaining authorized amount. During the year ended December 31, 2015, Kforce repurchased approximately 1.5 million shares of common stock at a total cost of approximately $36.7 million under the Board-authorized common stock repurchase program. As of December 31, 2015, $53.0 million remained available for future repurchases.

Contractual Obligations and Commitments

The following table presents our expected future contractual obligations as of December 31, 2015 (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Operating lease obligations	$ 20,212	$ 7,970	$ 9,722	$ 2,520	$ —
Capital lease obligations	2,023	943	1,006	74	—
Credit Facility (a)	80,472	—	—	80,472	—
Interest payable—Credit Facility (b)	7,845	1,569	3,138	3,138	—
Equipment notes (c)	2,914	575	1,150	1,189	—
Interest payable—equipment notes (c)	206	75	98	33	—
Purchase obligations	15,307	9,627	5,562	118	—
Liability for unrecognized tax positions (d)	—	—	—	—	—
Deferred compensation plan liability (e)	26,526	2,288	2,895	1,326	20,017
Other (f)	—	—	—	—	—
Supplemental executive retirement plan (g)	14,284	—	—	10,297	3,987
Foreign defined benefit pension plan (h)	7,504	376	4	82	7,042
Total	$177,293	$23,423	$23,575	$99,249	$31,046

(a) The Credit Facility expires December 23, 2019.

(b) Kforce's weighted average interest rate as of December 31, 2015 was 1.95%, which was utilized to forecast the expected future interest rate payments. These payments are inherently uncertain due to interest rate and outstanding borrowings fluctuations that will occur over the remaining term of the Credit Facility.

(c) Kforce entered into separate notes with Wells Fargo and Bank of America N.A for the purchase of furniture, fixtures and equipment during 2015. The aggregate outstanding amounts under these notes as of December 31, 2015 are included in the accompanying Consolidated Balance Sheets and classified in Other current liabilities if payable within the next year or in Long-term debt—other if payable after the next year. The interest rate on the notes are 2.80% and 2.64%, respectively. The equipment notes expire in November 2020.

(d) Kforce's liability for unrecognized tax positions as of December 31, 2015 was $0.8 million. This balance has been excluded from the table above due to the significant uncertainty with respect to the timing and amount of settlement, if any.

(e) Kforce has a non-qualified deferred compensation plan pursuant to which eligible highly-compensated key employees may elect to defer part of their compensation to later years. These amounts, which are included in the accompanying Consolidated Balance Sheets and classified as Accounts payable and other accrued liabilities and Other long-term liabilities, respectively, are payable based upon the elections of the plan participants (e.g. retirement, termination of employment, change-in-control). Amounts payable upon the retirement or termination of employment may become payable during the next five years if covered employees schedule a distribution, retire or terminate during that time.

(f) Kforce provides letters of credit to certain vendors in lieu of cash deposits. Kforce currently has letters of credit totaling $3.7 million outstanding as security for workers' compensation and property insurance policies, as well as facility lease deposits. Kforce maintains a sub-limit for letters of credit of $15.0 million under its Credit Facility.

(g) There is no funding requirement associated with the SERP. Kforce does not currently anticipate funding the SERP during 2015. Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2015, in the table above. See Note 11—"Employee Benefit Plans" in the Notes to Consolidated Financial Statements for more detail.

(h) There is no funding requirement associated with this plan. Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2015 in the table above. See Note 11—"Employee Benefit Plans" in the Notes to Consolidated Financial Statements for more detail.

Kforce has no material unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities.

Income Tax Audits

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2015, there were no on-going IRS examinations. During 2014, the IRS finished an examination of Kforce's U.S. income tax return for 2010 and 2011 with no material adjustments. Although Kforce has not experienced any material liabilities in the past due to income tax audits, Kforce can make no assurances concerning any future income tax audits.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Kforce is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) of the Exchange Act. Kforce's internal control system was designed to provide reasonable assurance to Kforce's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of the CEO and the CFO, Kforce's management assessed the effectiveness of Kforce's internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our assessment we believe that, as of December 31, 2015, Kforce's internal control over financial reporting is effective based on those criteria.

Kforce's independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on our internal control over financial reporting. This report follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Kforce Inc.
Tampa, FL

We have audited the accompanying Consolidated Balance Sheets of Kforce Inc. and subsidiaries ("Kforce") as of December 31, 2015 and 2014, and the related Consolidated Statements of Operations and Comprehensive Income, Changes in Stockholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2015. We also have audited Kforce's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Kforce's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Kforce's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kforce Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Kforce maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

Certified Public Accountants

Tampa, Florida
February 26, 2016

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

Years Ended December 31,	**2015**	2014	2013
Net service revenues	**$1,319,238**	$1,217,331	$1,073,728
Direct costs of services	**905,124**	842,750	729,352
Gross profit	**414,114**	374,581	344,376
Selling, general and administrative expenses	**330,416**	315,338	307,944
Goodwill impairment	**—**	—	14,510
Depreciation and amortization	**9,831**	9,894	9,846
Income from operations	**73,867**	49,349	12,076
Other expense (income):			
Interest expense	**1,982**	1,411	1,225
Other expense (income)	**213**	(19)	(78)
Income from continuing operations, before income taxes	**71,672**	47,957	10,929
Income tax expense	**28,848**	18,559	5,635
Income from continuing operations	**42,824**	29,398	5,294
Income from discontinued operations, net of income taxes	**—**	61,517	5,493
Net income	**42,824**	90,915	10,787
Other comprehensive income (loss):			
Defined benefit pension and post-retirement plans, net of tax	**689**	(688)	3,030
Comprehensive income	**$ 43,513**	$ 90,227	$ 13,817
Earnings per share—basic:			
From continuing operations	**$1.53**	$0.94	$0.16
From discontinued operations	**$ —**	$1.95	$0.16
Earnings per share—basic	**$1.53**	$2.89	$0.32
Earnings per share—diluted			
From continuing operations	**$1.52**	$0.93	$0.16
From discontinued operations	**$ —**	$1.94	$0.16
Earnings per share—diluted	**$1.52**	$2.87	$0.32
Weighted average shares outstanding—basic	**27,910**	31,475	33,511
Weighted average shares outstanding—diluted	**28,190**	31,691	33,643
Cash dividends declared per share	**$0.45**	$0.41	$0.10

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

CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31,	**2015**	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,497**	$ 1,238
Trade receivables, net of allowances of $2,121 and $2,040, respectively	**198,933**	204,710
Income tax refund receivable	**526**	3,311
Deferred tax assets, net	**4,518**	4,980
Prepaid expenses and other current assets	**9,060**	10,170
Total current assets	**214,534**	224,409
Fixed assets, net	**37,476**	35,330
Other assets, net	**28,671**	30,349
Deferred tax assets, net	**20,938**	22,855
Intangible assets, net	**4,235**	5,011
Goodwill	**45,968**	45,968
Total assets	**$ 351,822**	$ 363,922
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued liabilities	**$ 39,227**	$ 38,104
Accrued payroll costs	**46,125**	52,208
Other current liabilities	**1,287**	986
Income taxes payable	**1,107**	2,885
Total current liabilities	**87,746**	94,183
Long-term debt—credit facility	**80,472**	93,333
Long-term debt—other	**3,351**	562
Other long-term liabilities	**40,626**	36,456
Total liabilities	**212,195**	224,534
Commitments and contingencies (see Note 15)		
Stockholders' Equity:		
Preferred stock, $0.01 par; 15,000 shares authorized, none issued and outstanding	**—**	—
Common stock, $0.01 par; 250,000 shares authorized, 70,558 and 70,029 issued, respectively	**705**	700
Additional paid-in capital	**420,276**	412,642
Accumulated other comprehensive income (loss)	**318**	(371)
Retained earnings	**155,096**	125,378
Treasury stock, at cost; 42,130 and 40,616 shares, respectively	**(436,768)**	(398,961)
Total stockholders' equity	**139,627**	139,388
Total liabilities and stockholders' equity	**$ 351,822**	$ 363,922

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

Years Ended December 31,	**2015**	2014	2013
Common stock—shares:			
Shares at beginning of period	**70,029**	69,480	68,531
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	**497**	444	882
Exercise of stock options	**32**	105	67
Shares at end of period	**70,558**	70,029	69,480
Common stock—par value:			
Balance at beginning of period	**$ 700**	$ 695	$ 685
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	**5**	4	9
Exercise of stock options	**0**	1	1
Balance at end of period	**$ 705**	$ 700	$ 695
Additional paid-in capital:			
Balance at beginning of period	**$ 412,642**	$ 404,600	$ 400,688
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	**556**	369	72
Exercise of stock options	**381**	1,213	597
Income tax benefit from stock-based compensation	**551**	595	399
Stock-based compensation expense	**5,819**	5,475	2,570
Employee stock purchase plan	**327**	390	274
Balance at end of period	**$ 420,276**	$ 412,642	$ 404,600
Accumulated other comprehensive income (loss):			
Balance at beginning of period	**$ (371)**	$ 317	$ (2,713)
Pension and post-retirement plans, net of tax of $429, $394 and $1,919, respectively	**689**	(688)	3,030
Balance at end of period	**$ 318**	$ (371)	$ 317
Retained earnings:			
Balance at beginning of period	**$ 125,378**	$ 47,612	$ 40,203
Net income	**42,824**	90,915	10,787
Dividends and dividend equivalents, net of forfeitures ($0.45, $0.41 and $0.10 per share, respectively)	**(13,106)**	(13,149)	(3,378)
Balance at end of period	**$ 155,096**	$ 125,378	$ 47,612
Treasury stock—shares:			
Shares at beginning of period	**40,616**	35,751	33,980
Repurchases of common stock	**1,540**	4,896	1,812
Shares tendered in payment of the exercise price of stock options	**—**	4	—
Employee stock purchase plan	**(26)**	(35)	(41)
Shares at end of period	**42,130**	40,616	35,751
Treasury stock—cost:			
Balance at beginning of period	**$(398,961)**	$(295,991)	$ (269,017)
Repurchases of common stock	**(38,058)**	(103,195)	(27,313)
Shares tendered in payment of the exercise price of stock options	**—**	(84)	—
Employee stock purchase plan	**251**	309	339
Balance at end of period	**$(436,768)**	$(398,961)	$(295,991)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended December 31,	**2015**	2014	2013
Cash flows from operating activities:			
Net income	**$ 42,824**	$ 90,915	$ 10,787
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Gain on sale of discontinued operations	**—**	(64,600)	—
Goodwill impairment	**—**	—	14,510
Deferred income tax provision, net	**2,380**	491	1,166
Provision for bad debts on accounts receivable	**1,553**	825	546
Depreciation and amortization	**9,849**	10,058	9,846
Stock-based compensation	**5,819**	3,028	2,570
Pension and post-retirement benefit plans expense	**1,846**	1,424	3,237
Amortization of deferred financing costs	**122**	105	90
Excess tax benefit attributable to stock-based compensation	**(551)**	—	(110)
Loss on deferred compensation plan investments, net	**77**	446	304
Gain from Company-owned life insurance proceeds	**—**	(849)	—
Contingent consideration liability remeasurement	**321**	—	—
Other	**186**	(152)	257
Decrease (increase) in operating assets:			
Trade receivables, net	**4,223**	(40,339)	(28,071)
Income tax refund receivable	**2,785**	4,409	(5,970)
Prepaid expenses and other current assets	**1,110**	530	(3,170)
Other assets, net	**(298)**	(27)	(57)
Increase (decrease) in operating liabilities:			
Accounts payable and other current liabilities	**1,788**	5,653	(12,471)
Accrued payroll costs	**(5,503)**	(248)	7,422
Income taxes payable	**(1,657)**	(34,934)	(504)
Other long-term liabilities	**3,306**	(2,317)	83
Cash provided by (used in) operating activities	**70,180**	(25,582)	465
Cash flows from investing activities:			
Capital expenditures	**(8,328)**	(6,011)	(8,145)
Acquisition, net of cash received	**—**	(2,611)	—
Proceeds from disposition of business	**—**	117,887	—
Proceeds from the disposition of assets held within the Rabbi Trust	**445**	2,668	3,278
Purchase of assets held within the Rabbi Trust	**(481)**	(2,436)	(3,697)
Proceeds from Company-owned life insurance	**—**	1,037	—
Other	**—**	1	17
Cash (used in) provided by investing activities	**(8,364)**	110,535	(8,547)
Cash flows from financing activities:			
Proceeds from bank line of credit	**604,668**	684,427	591,688
Payments on bank line of credit	**(617,529)**	(653,701)	(550,081)
Proceeds from financing agreement	**2,914**	—	—
Payments of capital expenditure financing	**(1,274)**	(1,280)	(1,452)
Payments of loan financing costs	**—**	(460)	—
Short-term vendor financing	**(252)**	(160)	(180)
Proceeds from exercise of stock options, net of shares tendered in payment of exercise	**381**	1,131	598
Excess tax benefit attributable to stock-based compensation	**551**	—	110
Repurchases of common stock	**(38,471)**	(101,771)	(29,810)
Cash dividend	**(12,545)**	(12,776)	(3,297)
Cash (used in) provided by financing activities	**(61,557)**	(84,590)	7,576
Change in cash and cash equivalents	**259**	363	(506)
Cash and cash equivalents at beginning of year	**1,238**	875	1,381
Cash and cash equivalents at end of year	**$ 1,497**	$ 1,238	$ 875

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Kforce Inc. and its subsidiaries (collectively, "Kforce") provide professional staffing services and solutions to customers in the following segments: Technology ("Tech"), Finance and Accounting ("FA"), and Government Solutions ("GS"). Kforce provides flexible staffing services and solutions on both a temporary and full-time basis. Kforce operates through its corporate headquarters in Tampa, Florida and 62 field offices located throughout the United States. Additionally, one of our subsidiaries, Kforce Global Solutions, Inc. ("Global"), provides information technology outsourcing services internationally through an office in Manila, Philippines. Our international operations comprised less than 2% of net service revenues for each of the three years ended December 31, 2015 and are included in our Tech segment.

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

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the SEC.

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

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

Kforce classifies all highly liquid investments with an original initial maturity of three months or less as cash equivalents. Cash and cash equivalents consist of cash on hand with banks, either in commercial accounts, or overnight interest-bearing money market accounts and at times may exceed federally insured limits. Cash and cash equivalents are stated at cost, which approximates fair value due to the short duration of their maturities.

Accounts Receivable Reserves

Kforce establishes its reserves for expected credit losses, fallouts, early payment discounts and revenue adjustments based on past experience and estimates of potential future activity. Specific to our allowance for doubtful accounts, which comprises a majority of our 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. Trade receivables are written off by Kforce after all reasonable collection efforts have been exhausted.

Accounts receivable reserves as a percentage of gross accounts receivable was 1.1% and 1.0% as of December 31, 2015 and December 31, 2014, respectively.

Revenue Recognition

Kforce considers amounts to be earned once evidence of an arrangement has been obtained, delivery has occurred, fees are fixed or determinable, and collectability is reasonably assured. We earn revenues from two primary sources: Flexible billings and Direct Hire fees.

Flexible billings are recognized as the services are provided by Kforce's Flexible Consultants. Net service revenues represent services rendered to customers less credits, discounts, rebates and revenue-related reserves. Revenues include reimbursements of travel and out-of-pocket expenses ("billable expenses") with equivalent amounts of expense recorded in direct costs of services.

Direct Hire fees are recognized by Kforce when employment candidates accept offers of permanent employment and are scheduled to commence employment within 30 days. Kforce records revenues net of an estimated reserve for "fallouts," which is based on Kforce's historical fallout experience. Fallouts occur when a candidate does not remain employed with the client through the contingency period, which is typically 90 days or less.

Our GS segment generates its revenues under contracts that are, in general, greater in duration than our other segments and which can often span several years, inclusive of renewal periods. Our GS segment does not generate any Direct Hire fees. Our GS segment, which represents approximately 7% of total revenues, generates revenues under the following contract arrangements.

- Revenues for time-and-materials contracts, which accounts for approximately 62% of this segment's revenue, are recognized based on contractually established billing rates at the time services are provided.
- Revenues for fixed-price contracts are recognized on the basis of the estimated percentage-of-completion. Approximately 16% of this segment's revenues are recognized under this method. Progress towards completion is typically measured based on costs incurred as a proportion of estimated total costs or other measures of progress when applicable. Profit in a given period is reported at the expected profit margin to be achieved on the overall contract.
- Revenues for cost-plus arrangements are recognized based on allowable costs incurred plus an estimate of the applicable fees earned. Approximately 6% of this segment's revenues are recognized under these arrangements.
- Revenues for the product-based business, which accounts for approximately 16% of this segment's revenues, are recognized at the time of shipment.

Direct Costs of Services

Direct costs of services are composed of all related costs of employment for its Flexible Consultants, including payroll wages, payroll taxes, payroll-related insurance and certain fringe benefits, as well as subcontractor costs. Direct costs of services exclude depreciation and amortization expense, which is presented on a separate line in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Taxes Assessed by Governmental Agencies—Revenue Producing Transactions

Kforce collects sales tax for various taxing authorities and it is our policy to record these amounts on a net basis; thus, sales tax amounts are not included in net service revenues.

Income Taxes

Kforce accounts for income taxes using the asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Unless it is more likely than not that a deferred tax asset can be utilized to offset future taxes, a valuation allowance is recorded against that asset. The excess tax benefits of deductions attributable to employees' disqualifying dispositions of shares obtained from incentive stock options, exercises of non-qualified stock options, and vesting of restricted stock are reflected as increases in additional paid-in capital.

Kforce evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. Kforce uses a two-step approach to recognize and measure uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, tax positions are measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. Kforce recognizes interest and penalties related to unrecognized tax benefits in Income tax expense in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Fair Value Measurements

Kforce uses fair value measurements in areas that include, but are not limited to: the impairment testing of goodwill and intangible and long-lived assets; stock-based compensation arrangements; valuing the investment in money market funds within Kforce's deferred compensation plan; and a contingent consideration liability. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. Using available market information and appropriate valuation methodologies, Kforce has determined the estimated fair value measurements; however, considerable judgment is required in interpreting data to develop the estimates of fair value.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases, which generally range from three to five years. Upon sale or disposition of our fixed assets, the cost and accumulated depreciation are removed and any resulting gain or loss, net of proceeds, is reflected in the Consolidated Statements of Operations and Comprehensive Income.

Goodwill and Other Intangible Assets

Goodwill

Kforce performs a goodwill impairment analysis, using the two-step analysis method, on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable unless it is determined, based upon a review of the qualitative factors of a reporting unit, that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, including goodwill. Under the two-step analysis method, the recoverability of goodwill is measured at the reporting unit level, which Kforce has determined to be consistent with its operating segments, by comparing the reporting unit's carrying amount, including goodwill, to the fair market value of the reporting unit. Kforce determines the fair market value of its reporting units based on a weighting of the present value of projected future cash flows (the "income approach") and the use of comparative market approaches under both the guideline company method and guideline transaction method (collectively, the "market approach"). Fair market value using the income approach is based on Kforce's estimated future cash flows on a discounted basis. The market approach compares each of Kforce's reporting units to other comparable companies based on valuation multiples derived from operational and transactional data to arrive at a fair value. Factors requiring significant judgment include, among others, the assumptions related to discount rates, forecasted operating results, long-term growth rates, the determination of comparable companies, and market multiples. Changes in economic or operating conditions or changes in Kforce's business strategies that occur after the annual impairment analysis and which impact these assumptions may result in a future goodwill impairment charge, which could be material to Kforce's consolidated financial statements.

Other Intangible Assets

Identifiable intangible assets arising from certain of Kforce's acquisitions include non-compete and employment agreements, contractual relationships, customer contracts, technology, and a trade name and trademark. Our trade names and trademarks, and derivatives thereof, and GS's "Data Confidence" trademark are important to our business. Our primary trade names and trademark are registered with the United States Patent and Trademark Office.

For definite-lived intangible assets, Kforce has determined that the straight-line method is an appropriate methodology to allocate the cost over the period of expected benefit, which ranges from one to fifteen years. The impairment evaluation for indefinite-lived intangible assets, which for Kforce consists of a trademark and trade name, is conducted on an annual basis or more frequently if events or changes in circumstances indicate that an asset may be impaired.

Impairment of Long-Lived Assets

Kforce reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceed the fair value of the assets, as determined based on the present value of projected future cash flows.

Capitalized Software

Kforce purchases, develops, and implements new computer software to enhance the performance of our technology infrastructure. Direct internal costs, such as payroll and payroll-related costs, and external costs incurred during the development stage are capitalized and classified as capitalized software. Kforce capitalized development-stage implementation costs of $0.3 million, $0.4 million and $1.0 million during the years ended December 31, 2015, 2014 and 2013, respectively. Capitalized software development costs are classified as Other assets, net in the accompanying Consolidated Balance Sheets and are being amortized over the estimated useful lives of the software, which range from one to five years, using the straight-line method.

Commissions

Our associates make placements and earn commissions as a percentage of revenues (for Direct Hire revenues) or gross profit (for Flex revenues) pursuant to a calendar-year-basis commission plan. The amount of commissions paid as a percentage of revenues or gross profit increases as volume increases. Kforce accrues commissions for revenues or gross profit at a percentage equal to the percent of total expected commissions payable to total revenues or gross profit for the year, as applicable.

Stock-Based Compensation

Kforce accounts for stock-based compensation by measuring the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the requisite service period, net of estimated forfeitures. If the actual number of forfeitures differs from those estimated, additional adjustments to compensation expense may be required in future periods.

Workers' Compensation

Kforce retains the economic burden for the first $250 thousand per occurrence in workers' compensation claims except: (1) in states that require participation in state-operated insurance funds and (2) for its GS segment which is fully insured for workers' compensation claims. Workers' compensation includes ongoing health care and indemnity coverage for claims and may be paid over numerous years following the date of injury. Workers' compensation expense includes insurance premiums paid, claims administration fees charged by Kforce's workers' compensation administrator, premiums paid to state-operated insurance funds and an estimate for Kforce's liability for IBNR claims and for the ongoing development of existing claims.

Kforce estimates its workers' compensation liability based upon historical claims experience, actuarially determined loss development factors, and qualitative considerations such as claims management activities.

Health Insurance

Except for certain fully insured health insurance lines of coverage, Kforce retains the risk of loss for each health insurance plan participant up to $300 thousand in claims annually. Additionally, for all claim amounts exceeding $300 thousand, Kforce retains the risk of loss up to an aggregate annual loss of those claims of $450 thousand. For its partially self-insured lines of coverage, health insurance costs are accrued using estimates to approximate the liability for reported claims and IBNR claims, which are primarily based upon an evaluation of historical claims experience, actuarially-determined completion factors and a qualitative review of our health insurance exposure including the extent of outstanding claims and expected changes in health insurance costs.

Accounting for Pension Benefits

Kforce recognizes the underfunded status of its defined benefit pension plans as a liability in its Consolidated Balance Sheets and recognizes changes in that funded status in the year in which the changes occur through other comprehensive income (loss). Kforce also measures the funded status of the defined benefit pension plans as of the date of its fiscal year-end, with limited exceptions.

Amortization of a net unrecognized gain or loss in accumulated other comprehensive income (loss) is included as a component of net periodic benefit cost if, as of the beginning of the year, that net gain or loss exceeds 10% of the projected benefit obligation. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active plan participants.

Earnings per Share

Basic earnings per share is computed as earnings divided by the weighted average number of common shares outstanding during the period. Basic weighted average shares outstanding excludes unvested shares of restricted stock. Diluted earnings per common share is computed by dividing the earnings attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period plus the dilutive effect of stock options and other potentially dilutive securities such as unvested shares of restricted stock using the treasury stock method, except where the effect of including potential common shares would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share for the three years ended December 31 (in thousands, except per share amounts):

Years Ended December 31,	**2015**	2014	2013
Numerator:			
Income from continuing operations	**$42,824**	$29,398	$ 5,294
Income from discontinued operations, net of tax	**—**	61,517	5,493
Net income	**$42,824**	$90,915	$10,787
Denominator:			
Weighted average shares outstanding—basic	**27,910**	31,475	33,511
Common stock equivalents	**280**	216	132
Weighted average shares outstanding—diluted	**28,190**	31,691	33,643
Earnings per share—basic:			
From continuing operations	**$1.53**	$0.94	$0.16
From discontinued operations	**—**	1.95	0.16
Earnings per share—basic	**$1.53**	$2.89	$0.32
Earnings per share—diluted:			
From continuing operations	**$1.52**	$0.93	$0.16
From discontinued operations	**—**	1.94	0.16
Earnings per share—diluted	**$1.52**	$2.87	$0.32

For the years ended December 31, 2015, 2014 and 2013, there were inconsequential common stock equivalents excluded from the weighted average diluted common shares based on the fact that their inclusion would have had an anti-dilutive effect on earnings per share.

Treasury Stock

Kforce's Board of Directors ("Board") may authorize share repurchases of Kforce's common stock. Shares repurchased under Board authorizations are held in treasury for general corporate purposes, including issuances under the 2009 ESPP. Treasury shares are accounted for under the cost method and reported as a reduction of stockholders' equity in the accompanying consolidated financial statements.

Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) represents the net after-tax impact of unrecognized actuarial gains and losses related to the SERP which covers a limited number of executives and a defined benefit plan covering all eligible employees in our Philippine operations. Because each of these plans is unfunded as of December 31, 2015, the actuarial gains and losses arise as a result of the actuarial experience of the plans, as well as changes in actuarial assumptions in measuring the associated obligation as of year-end, or an interim date if any re-measurement is necessary. This information is provided in our Consolidated Statements of Operations and Comprehensive Income.

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 summarizes the cash dividends declared for the three years ended December 31:

Years Ended December 31,	**2015**	2014	2013
Cash dividends declared per share	**$0.45**	$0.41	$0.10

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.

New Accounting Standards

In February 2016, the FASB issued authoritative guidance regarding the accounting for leases. The guidance is to be applied for annual periods beginning after December 15, 2018 and interim periods within those annual periods, and early adoption is permitted. The guidance requires companies to apply the requirements retrospectively to all prior periods presented, including interim periods. Kforce elected not to adopt this standard early. Kforce is currently evaluating the potential impact on the consolidated financial statements.

In November 2015, the FASB issued authoritative guidance requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance is to be applied for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. Kforce is still determining if it will early adopt this standard. Kforce anticipates a change to the presentation of the deferred tax liabilities and assets on the consolidated balance sheets upon adoption.

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

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

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

2. DISCONTINUED OPERATIONS

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

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

In accordance with and defined within the SPA, Kforce was obligated to indemnify the Purchaser for certain losses, as defined, in excess of $1.19 million, although this deductible does not apply to certain specified losses. Kforce's obligations under the indemnification provisions of the SPA, with the exception of certain items, ceased 12 months from the closing date and were limited to an aggregate of $8.925 million, although these time and monetary caps do not apply to certain specified losses. While it cannot be certain, Kforce believes any material exposure under the indemnification provisions is remote, particularly given that the 12 month time period for general indemnification claims has now passed and, as a result, Kforce has not recorded a liability as of December 31, 2015.

The total financial results of HIM have been presented as discontinued operations in the accompanying Consolidated Statements of Operations and Comprehensive Income. The following summarizes the revenues and pretax profits of HIM for the two years ended December 31 (in thousands):

Years Ended December 31,	2014	2013
Net service revenues	$ 56,670	$78,159
Income from discontinued operations, before income taxes	$103,512	$ 9,169

For the year ended December 31, 2014, the income from discontinued operations included a gain, net of transaction costs, on the sale of HIM of $94.3 million pretax, or $56.1 million after tax. The transaction costs primarily included legal fees, stock-based compensation related to the acceleration of restricted stock, commissions and transaction bonuses in the form of cash and common stock, which, in the aggregate, totaled $11.0 million. Stock-based compensation related to acceleration of restricted stock and transaction bonuses paid in stock in lieu of cash was $2.4 million. Kforce utilized the proceeds from the sale of HIM initially to pay down the outstanding borrowings under our Credit Facility and ultimately to repurchase shares of common stock.

Income tax expense as a percentage of income from discontinued operations, before income taxes, for the year ended December 31, 2014 and 2013 was 40.6% and 40.1%, respectively.

3. FIXED ASSETS

Major classifications of fixed assets and related useful lives are summarized as follows (in thousands):

December 31,	Useful Life	**2015**	2014
Land		**$ 5,892**	$ 5,892
Building and improvements	5-40 years	**25,516**	25,304
Furniture and equipment	5-10 years	**11,802**	10,881
Computer equipment	3-5 years	**11,393**	10,380
Leasehold improvements	3-5 years	**11,632**	8,347
		66,235	60,804
Less accumulated depreciation and amortization		**(28,759)**	(25,474)
		$ 37,476	$ 35,330

Computer equipment at December 31, 2015 includes equipment acquired under capital leases of $4.7 million and related accumulated depreciation of $2.9 million. Computer equipment at December 31, 2014 includes equipment acquired under capital leases of $3.8 million and related accumulated depreciation of $2.3 million. Depreciation and amortization expense, which includes amortization of capital leases, during the years ended December 31, 2015, 2014 and 2013 was $6.7 million, $6.3 million and $5.9 million, respectively.

4. INCOME TAXES

The provision for income taxes from continuing operations consists of the following (in thousands):

Years Ended December 31,	**2015**	2014	2013
Current:			
Federal	**$22,265**	$15,782	$4,140
State	**4,632**	2,527	449
Deferred	**1,951**	250	1,046
	$28,848	$18,559	$5,635

The provision for income taxes from continuing operations shown above varied from the statutory federal income tax rate for those periods as follows:

Years Ended December 31,	**2015**	2014	2013
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of Federal tax effect	**6.1**	3.2	4.1
Non-deductible goodwill impairment	**—**	—	4.3
Non-deductible compensation	**—**	1.1	—
Non-deductible meals and entertainment	**0.7**	1.1	5.2
Other	**(1.5)**	(1.7)	3.0
Effective tax rate	**40.3%**	38.7%	51.6%

The 2015 rate was unfavorably impacted by a change in the overall mix of income in the various state jurisdictions and the increase in particular uncertain tax positions.

Deferred income tax assets and liabilities are composed of the following (in thousands):

December 31,	2015	2014
Deferred taxes, current:		
Assets:		
Accounts receivable reserves	**$ 982**	$ 804
Accrued liabilities	**2,753**	3,123
Deferred compensation obligation	**895**	1,426
Other	**74**	75
Deferred tax assets, current	**4,704**	5,428
Liabilities:		
Prepaid expenses	**(186)**	(448)
Deferred tax asset, net—current	**4,518**	4,980
Deferred taxes, non-current:		
Assets:		
Accrued liabilities	**613**	649
Deferred compensation obligation	**6,956**	6,324
Stock-based compensation	**1,817**	1,185
Pension and post-retirement benefit plans	**5,303**	5,125
Goodwill and intangible assets	**7,543**	10,407
Deferred revenue	**27**	28
Other	**293**	995
Deferred tax assets, non-current	**22,552**	24,713
Liabilities:		
Fixed assets	**(1,198)**	(1,651)
Other	**(331)**	(122)
Deferred tax liabilities, non-current	**(1,529)**	(1,773)
Valuation allowance	**(85)**	(85)
Deferred tax asset, net—non-current	**20,938**	22,855
Net deferred tax asset	**$25,456**	$27,835

At December 31, 2015, Kforce had approximately $4.7 million of state tax net operating losses ("NOLs") which will be carried forward to be offset against future state taxable income. The state tax NOLs expire in varying amounts through 2033.

In evaluating the realizability of Kforce's deferred tax assets, management assesses whether it is more likely than not that some portion, or all, of the deferred tax assets, will be realized. Management considers, among other things, the ability to generate future taxable income (including reversals of deferred tax liabilities) during the periods in which the related temporary differences will become deductible.

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2015, there were no ongoing IRS examinations. During 2014, the IRS finished an examination of Kforce's U.S. income tax return for 2010 and 2011 with no material adjustments. Although Kforce has not experienced any material liabilities in the past due to income tax audits, Kforce can make no assurances concerning any future income tax audits.

Uncertain Income Tax Positions

An uncertain income tax position taken on the income tax return must be recognized in the consolidated financial statements at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

December 31,	2015	2014	2013
Beginning balance	**$278**	$ 403	$133
Additions for tax positions of prior years	**625**	90	269
Additions for tax positions of current year	**—**	—	25
Reductions for tax positions of prior years—lapse of applicable statutes	**(33)**	(35)	(24)
Settlements	**(82)**	(180)	—
Ending balance	**$788**	$ 278	$403

The entire amount of these unrecognized tax benefits as of December 31, 2015, if recognized, would not significantly impact the effective tax rate. Kforce does not expect any significant changes to its uncertain tax positions in the next 12 months.

Kforce and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. Global files income tax returns in the Philippines. With a few exceptions, Kforce is no longer subject to federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2011.

5. OTHER ASSETS

Other assets consisted of the following (in thousands):

December 31,	2015	2014
Assets held in Rabbi Trust	**$25,489**	$25,715
Capitalized software, net of amortization	**2,049**	3,678
Deferred loan costs, net of amortization	**487**	608
Other non-current assets	**646**	348
	$28,671	$30,349

As of December 31, 2015 and 2014, the assets held in Rabbi Trust were $25.5 million and $25.7 million, respectively, which was primarily related to the cash surrender value of life insurance policies. The cash surrender value of Company-owned life insurance policies relates to policies maintained by Kforce on certain participants in its deferred compensation plan, which could be used to fund the related obligations.

Kforce capitalized software purchases, as well as direct costs associated with software developed for internal use of approximately $0.7 million and $1.2 million during the years ended December 31, 2015 and 2014, respectively. Accumulated amortization of capitalized software was $37.7 million and $37.6 million as of December 31, 2015 and 2014, respectively. Amortization expense of capitalized software during the years ended December 31, 2015, 2014 and 2013 was $2.3 million, $2.9 million and $3.2 million, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table contains a disclosure of changes in the carrying amount of goodwill in total and for each reporting unit for the two years ended December 31, 2015 and 2014 (in thousands):

	Technology	Finance and Accounting	Health Information Management	Government Solutions	Total
Balance as of December 31, 2013	$17,034	$8,006	$ 4,887	$18,973	$48,900
Additions (a)	—	—	—	1,955	1,955
Disposition of HIM (b)	—	—	(4,887)	—	(4,887)
Balance as of December 31, 2014	$17,034	$8,006	$ —	$20,928	$45,968
Balance as of December 31, 2015	**$17,034**	**$8,006**	**$ —**	**$20,928**	**$45,968**

(a) The increase is due to a non-significant acquisition of a business within our GS reporting unit in the fourth quarter of 2014.
(b) The decrease is due to the disposition of our HIM reporting segment. See Note 2—"Discontinued Operations" for additional discussion.

Throughout 2015, we considered the qualitative and quantitative factors associated with each of our reporting units and determined that there was no indication that the carrying values of any of our reporting units were likely impaired.

Kforce performed its annual impairment assessment of the carrying value of goodwill as of December 31, 2015. For our Technology and Finance and Accounting reporting units, we assessed qualitative factors to determine whether the existence of events or circumstances indicated that it was more likely than not that the fair value of the reporting units was less than its carrying amount. We concluded that it was more likely than not that the fair value of these reporting units was more than their carrying amounts.

For our GS reporting unit, we compared its carrying value to the estimated fair value based on a weighting of both the income approach and market approaches. Discounted cash flows, which serve as the primary basis for the income approach, were based on a discrete financial forecast which was developed by management for planning purposes and was consistent with those distributed within Kforce. Cash flows beyond the discrete forecast period of five years were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends and also considered long-term earnings growth rates for publicly-traded peer companies, as well as the risk-free rate of return. The discrete financial forecast includes certain adjustments of costs that Kforce believes a market participant buyer, such as a large government contractor, would incur to operate the GS reporting unit. The market approaches consist of: (1) the guideline company method and (2) the guideline transaction method. The guideline company method applies pricing multiples derived from publicly-traded guideline companies that are comparable to the reporting unit to determine its value. The guideline transaction method applies pricing multiples derived from recently completed acquisitions that we believe are reasonably comparable to the reporting unit to determine fair value. Our assessment indicated that the fair value of the GS reporting unit exceeded its carrying value.

Based on our impairment assessments results, no impairment charges were recognized for the Tech, FA and GS reporting units during the year ended December 31, 2015.

For the impairment test performed as of December 31, 2014, Kforce performed a step 1 analysis for each reporting unit and compared the carrying value of Tech, FA and GS to the respective estimated fair values. Kforce concluded there were no indications of impairment for its reporting units during the December 31, 2014 annual impairment tests and as a result no impairment charges were recognized.

For the impairment tests performed as of December 31, 2013, for our Tech and FA reporting units, we assessed qualitative factors to determine whether the existence of events or circumstances indicated that it was more likely than not that the fair value of the reporting units was less than its carrying amount. We concluded that it was more likely than not that the fair value of these reporting units was more than its carrying amount. During the fourth quarter of 2013, Kforce management made a strategic business decision with regard to the GS segment to focus its service offerings and efforts on prime integrated business solutions. Upon completion of the first step of the goodwill impairment analysis as of December 31, 2013 for our GS reporting unit, it was determined that there was an indication of impairment. Because indicators of impairment existed, we performed the second step of the goodwill impairment analysis. The goodwill impairment loss for the reporting unit was measured by the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. Based on this assessment, we recorded an impairment charge of $14.5 million which is presented separately in the Consolidated Statements of Operations and Comprehensive Income. A tax benefit in the amount of $5.2 million was recorded related to the goodwill impairment charge.

Total goodwill impairment for the years ending December 31, 2015, 2014 and 2013 was nil, nil and $14.5 million, respectively. The following table contains a disclosure of the gross amount and accumulated impairment losses of goodwill for Tech, FA and GS reporting units for the three years ended December 31, 2015 (in thousands):

	Goodwill Carrying Value by Reporting Unit as of:		
	December 31, 2015	December 31, 2014	December 31, 2013
Technology			
Gross amount	**$ 156,391**	$ 156,391	$ 156,391
Accumulated impairment losses	**(139,357)**	(139,357)	(139,357)
Carrying value	**$ 17,034**	$ 17,034	$ 17,034
Finance and Accounting			
Gross amount	**$ 19,766**	$ 19,766	$ 19,766
Accumulated impairment losses	**(11,760)**	(11,760)	(11,760)
Carrying value	**$ 8,006**	$ 8,006	$ 8,006
Government Solutions			
Gross amount	**$ 104,596**	$ 104,596	$ 102,641
Accumulated impairment losses	**(83,668)**	(83,668)	(83,668)
Carrying value	**$ 20,928**	$ 20,928	$ 18,973

Other Intangible Assets

The gross and net carrying values of intangible assets as of December 31, 2015 and 2014, by major intangible asset class, are as follows (in thousands):

	December 31, 2015	December 31, 2014
Definite-lived intangible assets		
Customer relationships, customer contracts, technology and other		
Gross amount	**$ 28,603**	$ 28,603
Accumulated amortization	**(26,608)**	(25,832)
Carrying value	**$ 1,995**	$ 2,771
Indefinite-lived intangible assets		
Trade name and trademark carrying value	**$ 2,240**	$ 2,240

Amortization expense on intangible assets for each of the three years ended December 31, 2015, 2014 and 2013 was $0.8 million, $0.7 million and $0.7 million, respectively. Amortization expense for 2016, 2017, 2018, 2019, 2020 and thereafter is expected to be approximately $0.6 million, $0.3 million, $0.3 million, $0.3 million, $0.2 million and $0.2 million, respectively.

There was no impairment expense related to indefinite-lived intangible assets during the years ended December 31, 2015, 2014 or 2013.

7. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities consisted of the following (in thousands):

December 31,	2015	2014
Accounts payable	**$23,513**	$21,863
Accrued liabilities	**15,714**	16,241
	$39,227	$38,104

8. ACCRUED PAYROLL COSTS

Accrued payroll costs consisted of the following (in thousands):

December 31,	2015	2014
Payroll and benefits	**$39,043**	$43,797
Payroll taxes	**2,832**	3,062
Health insurance liabilities	**2,968**	3,417
Workers' compensation liabilities	**1,282**	1,932
	$46,125	$52,208

9. CREDIT FACILITY

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

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

Under the Credit Facility, Kforce is subject to certain affirmative and negative covenants including, but not limited to, a fixed charge coverage ratio, which is only applicable in the event that the Firm's availability under the Credit Facility falls below the greater of (i) 10% of the aggregate amount of the commitment of all of the lenders under the Credit Facility and (ii) $11 million. The numerator in the fixed charge coverage ratio is defined pursuant to the Credit Facility as earnings before interest expense, income taxes, depreciation and amortization, including the amortization of stock-based compensation expense, less cash paid for capital expenditures. The denominator is defined as Kforce's fixed charges such as interest expense, principal payments paid or payable on outstanding debt other than borrowings under the Credit Facility, income taxes payable, and certain other payments. This financial covenant, if applicable, requires that the numerator be equal to or greater than the denominator.

Also, our ability to make distributions or repurchase equity securities could be limited if the Firm's availability is less than the greater of (i) 12.5% of the aggregate amount of the commitment of all lenders under the Credit Facility or (ii) $20.6 million. Since Kforce had availability under the Credit Facility of $48.5 million as of December 31, 2015, the fixed charge coverage ratio covenant was not applicable nor was Kforce limited in making distributions or repurchases of its equity securities. Kforce believes that it will be able to maintain these minimum availability requirements; however, in the event that Kforce is unable to do so, Kforce could fail the fixed charge coverage ratio, which would constitute an event of default, or could be limited in our ability to make distributions or repurchase equity securities. Kforce believes the likelihood of default is remote. The Credit Facility expires December 23, 2019.

As of December 31, 2015 and 2014, $80.5 million and $93.3 million was outstanding under the Credit Facility, respectively. As of February 23, 2016, $88.4 million was outstanding and $43.5 million was available under the Credit Facility.

10. OTHER LONG-TERM LIABILITIES

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

December 31,	2015	2014
Deferred compensation plan (Note 11)	**$24,238**	$22,425
Supplemental executive retirement plan (Note 11)	**11,337**	10,197
Other	**5,051**	3,834
	$40,626	$36,456

11. EMPLOYEE BENEFIT PLANS

401(k) Savings Plans

Kforce has a qualified defined contribution 401(k) Retirement Savings Plan (the "Kforce 401(k) Plan") covering substantially all Kforce employees. Assets of the Kforce 401(k) Plan are held in trust for the sole benefit of employees and/or their beneficiaries. On October 2, 2006, Kforce created the Kforce Government Practice Plan, a qualified defined contribution 401(k) retirement savings plan (the "Government 401(k) Plan"), which covers all eligible employees of GS. Assets of the Government 401(k) Plan are held in trust for the sole benefit of employees and/or their beneficiaries. Employer matching contributions are discretionary and are funded annually as approved by the Board of Directors.

Kforce accrued matching contributions of $1.4 million and $1.3 million for the above plans as of December 31, 2015 and 2014, respectively. The Kforce 401(k) Plan and Government 401(k) Plan held a combined 218 thousand and 229 thousand shares of Kforce's common stock as of December 31, 2015 and 2014, respectively.

Employee Stock Purchase Plan

Kforce's employee stock purchase plan allows all eligible employees to purchase Kforce's common stock at a 5% discount from its market price at the end of a rolling three-month offering period. Kforce issued 26 thousand, 35 thousand and 41 thousand shares of common stock at an average purchase price of $22.61, $19.76 and $14.88 per share during the years ended December 31, 2015, 2014 and 2013, respectively. All shares purchased under the employee stock purchase plan were settled using Kforce's treasury stock.

Deferred Compensation Plan

Kforce has a Non-Qualified Deferred Compensation Plan (the "Kforce NQDC Plan") and a Kforce Non-Qualified Deferred Compensation Government Practice Plan (the "Government NQDC Plan"), pursuant to which eligible management and highly compensated key employees, as defined by IRS regulations, may elect to defer all or part of their compensation to later years. These amounts are classified in accounts payable and other accrued liabilities if payable within the next year or as other long-term liabilities if payable after the next year, upon retirement or termination of employment. At December 31, 2015 and 2014, amounts included in accounts payable and other accrued liabilities related to the deferred compensation plan totaled $2.3 million and $3.7 million, respectively. Amounts included in other long-term liabilities related to the deferred compensation plan totaled $24.2 million and $22.4 million as of December 31, 2015 and 2014, respectively. Kforce has insured the lives of certain participants in the deferred compensation plan to assist in the funding of the deferred compensation liability. Compensation expense of $401 thousand was recognized for the plans for the year ended December 31, 2015. Compensation income from continuing operations of $187 thousand was recognized for the plans for the year ended December 31, 2014 and compensation expense from continuing operations of $566 thousand was recognized for the plans for the year ended December 31, 2013.

Employee distributions are being funded through proceeds from the sale of assets held within our Rabbi Trust. The fair value of the assets within the Rabbi Trust, including the cash surrender value of the Company-owned life insurance policies and money market funds, was $25.5 million and $25.7 million as of December 31, 2015 and 2014, respectively, and is recorded in Other assets, net in the accompanying Consolidated Balance Sheets. For the years ended December 31, 2015, 2014 and 2013, there was nil, nil and $15 thousand in losses, respectively, attributable to the investments in trading securities, including money market funds, which is included in Selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

Foreign Pension Plan

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

The significant assumptions used by Kforce in the actuarial valuation include the discount rate, the estimated rate of future annual compensation increases and the estimated turnover rate. As of December 31, 2015, 2014 and 2013, the discount rate used to determine the actuarial present value of the projected benefit obligation and pension expense was 5.2%, 4.7% and 5.0%, respectively. The discount rate was determined based on long-term Philippine government securities yields commensurate with the expected payout of the benefit obligation. The estimated rate of future annual compensation increases as of December 31, 2015, 2014 and 2013 was 3.0%, and was based on historical compensation increases, as well as future expectations. The Company applies a turnover rate to the specific age of each group of employees, which ranges from 20 to 64 years of age. For the years ended December 31, 2015, 2014 and 2013, net periodic benefit cost was $280 thousand, $124 thousand and $92 thousand, respectively.

As of December 31, 2015 and 2014, the projected benefit obligation associated with our foreign defined benefit pension plan was $1.2 million and $1.6 million, respectively, which is classified in Other long-term liabilities in the accompanying Consolidated Balance Sheets. The decrease in the projected benefit obligation is the result of changes in the actuarial assumptions and a reduction in the number of plan participants. There is no requirement for Kforce to fund the Foreign Pension Plan and, as a result, no contributions were made to the Foreign Pension Plan during the year ended December 31, 2015. Kforce does not currently anticipate funding the Foreign Pension Plan during the year ending December 31, 2016.

Supplemental Executive Retirement Plan

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

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

Benefits under the SERP are normally paid based on the lump sum present value but may be paid over the life of the covered executive officer or 10-year annuity, as elected by the covered executive officer upon commencement of participation in the SERP. None of the benefits earned pursuant to the SERP are attributable to services provided prior to the effective date of the plan. For purposes of the measurement of the benefit obligation as of December 31, 2015, Kforce has assumed that all participants will elect to take the lump sum present value option based on historical trends.

Actuarial Assumptions

Due to the SERP being unfunded as of December 31, 2015 and 2014, it is not necessary for Kforce to determine the expected long-term rate of return on plan assets. The following represents the actuarial assumptions used to determine the actuarial present value of projected benefit obligations at:

December 31,	**2015**	2014
Discount rate	**4.00%**	3.75%
Rate of future compensation increase	**4.00%**	4.00%

The following represents the weighted average actuarial assumptions used to determine net periodic benefit cost for the years ended:

December 31,	**2015**	2014	2013
Discount rate	**3.75%**	3.75%	2.50%
Rate of future compensation increase	**4.00%**	4.00%	4.00%

The discount rate was determined using the Moody's Aa long-term corporate bond yield as of the measurement date with a maturity commensurate with the expected payout of the SERP obligation. This rate is also compared against the Citigroup Pension Discount Curve and Liability Index to ensure the rate used is reasonable and may be adjusted accordingly. This index is widely used by companies throughout the United States and is considered to be one of the preferred standards for establishing a discount rate.

The assumed rate of future compensation increases is based on a combination of factors, including the historical compensation increases for its covered executive officers and future target compensation levels for its covered executive officers taking into account the covered executive officers' assumed retirement date.

The periodic benefit cost is based on actuarial assumptions that are reviewed on an annual basis; however, Kforce monitors these assumptions on a periodic basis to ensure that they accurately reflect current expectations of the cost of providing retirement benefits.

Net Periodic Benefit Cost

The following represents the components of net periodic benefit cost for the years ended (in thousands):

December 31,	**2015**	2014	2013
Service cost	**$1,323**	$1,164	$2,018
Interest cost	**383**	294	471
Amortization of actuarial loss	**—**	—	97
Settlement loss	**—**	—	24
Net periodic benefit cost	**$1,706**	$1,458	$2,610

Changes in Benefit Obligation

The following represents the changes in the benefit obligation for the years ended (in thousands):

December 31,	**2015**	2014
Projected benefit obligation, beginning	**$10,197**	$ 7,852
Service cost	**1,323**	1,164
Interest cost	**383**	294
Actuarial experience and changes in actuarial assumptions	**(566)**	887
Projected benefit obligation, ending	**$11,337**	$10,197

There were no payments made under the SERP during the years ended December 31, 2015 and 2014, respectively. The projected benefit obligation is recorded in Other long-term liabilities in the accompanying Consolidated Balance Sheets. The accumulated benefit obligation is the actuarial present value of all benefits attributed to past service, excluding future salary increases. The accumulated benefit obligation as of December 31, 2015 and 2014 was $11.0 million and $9.5 million, respectively.

Contributions

There is no requirement for Kforce to fund the SERP and, as a result, no contributions have been made to the SERP through the year ended December 31, 2015. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2016.

Estimated Future Benefit Payments

Undiscounted benefit payments by the SERP, which reflect the anticipated future service of participants, expected to be paid are as follows (in thousands):

	Projected Annual Benefit Payments
2016	$ —
2017	—
2018	—
2019	10,297
2020	—
2021-2025	—
Thereafter	3,987

Supplemental Executive Retirement Health Plan

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

During the year ended December 31, 2014, Kforce terminated the Company's SERHP and settled all future benefit obligations by making lump sum payments totaling approximately $3.9 million, which resulted in a net settlement loss of $0.7 million recorded in Selling, general and administrative expenses in the corresponding Consolidated Statements of Operations and Comprehensive Income. The termination effectively removed Kforce's related post-retirement benefit obligation.

During the year ended December 31, 2013, in connection with the Firm's organizational realignment, two participants in the SERHP were terminated, resulting in a curtailment of $785 thousand to the projected benefit obligation and in the recognition of a curtailment gain of $359 thousand recorded in Selling, general and administrative expenses in the corresponding Consolidated Statements of Operations and Comprehensive Income.

Net Periodic Post-retirement Benefit Cost

The following represents the components of net periodic post-retirement benefit cost for the years ended (in thousands):

December 31,	2014	2013
Service cost	$174	$ 649
Interest cost	78	134
Amortization of actuarial loss	—	86
Settlement/curtailment loss/(gain)	725	(359)
Net periodic benefit cost	$977	$ 510

Changes in Post-retirement Benefit Obligation

The following represents the changes in the post-retirement benefit obligation for the year ended (in thousands):

December 31,	2014
Accumulated post-retirement benefit obligation, beginning	$ 2,674
Service cost	174
Interest cost	78
Actuarial experience and changes in actuarial assumptions	234
Settlement/curtailment loss/(gain)	725
Benefits Paid	(3,885)
Accumulated post-retirement benefit obligation, ending	$ —

12. FAIR VALUE MEASUREMENTS

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

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

The underlying investments within Kforce's deferred compensation plan have included money market funds, which are held within the Rabbi Trust. Assets held within the money market funds are measured on a recurring basis and are recorded at fair value based on each fund's quoted market value per share in an active market, which is considered a Level 1 input. Refer to Note 11—"Employee Benefit Plans" and Note 5—"Other Assets" for additional discussion.

The contingent consideration liability, which is related to a non-significant acquisition of a business within our GS reporting segment in the fourth quarter of 2014, is measured on a recurring basis and is recorded at fair value, determined using the discounted cash flow method. The inputs used to calculate the fair value of the contingent consideration liability are considered to be Level 3 inputs due to the lack of relevant market activity and significant management judgment. An increase in future cash flows may result in a higher estimated fair value while a decrease in future cash flows may result in a lower estimated fair value of the contingent consideration liability. The remeasurements to fair value are recorded in Other expense, net within the Consolidated Statements of Operations and Comprehensive Income. For the year ended December 31, 2015, $0.3 million was recognized in Other expense, net due to the remeasurement of our contingent consideration liability. The contingent consideration liability is recorded in Other long-term liabilities within the Consolidated Balance Sheets.

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

There were no transfers into or out of Level 1, 2 or 3 assets during the years ended December 31, 2015 and 2014. Transfers between levels are deemed to have occurred if the lowest level of input were to change.

Kforce's measurements at fair value on a recurring basis as of December 31, 2015 and 2014 were as follows (in thousands):

Assets/(Liabilities) Measured at Fair Value:	Asset/(Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2015				
Money market funds	**$ 36**	**$36**	**$—**	**$ —**
Contingent consideration liability	**$(798)**	**$—**	**$—**	**$(798)**
As of December 31, 2014				
Contingent consideration liability	$(477)	$—	$—	$(477)

13. STOCK INCENTIVE PLANS

On April 5, 2013, the shareholders approved the 2013 Stock Incentive Plan, which was previously adopted by the Board on March 1, 2013, subject to shareholder approval. The aggregate number of shares of common stock that are subject to awards under the 2013 Stock Incentive Plan, subject to adjustment upon a change in capitalization, is 4.0 million. On June 20, 2006, the shareholders approved the 2006 Stock Incentive Plan and, as amended, the aggregate number of shares of common stock that are subject to awards is 7.9 million.

The 2013 Stock Incentive Plan and 2006 Stock Incentive Plan allow for the issuance of stock options, SARs, restricted stock and common stock, subject to share availability. Vesting of equity instruments is determined on a grant-by-grant basis. Options expire at the end of 10 years from the date of grant, and Kforce issues new shares upon exercise of options.

The 2013 Stock Incentive Plan terminates on April 5, 2023 and the 2006 Stock Incentive Plan terminates on April 28, 2016. The Incentive Stock Option Plan expired in 2005.

Total stock-based compensation expense recognized related to all equity awards during the years ended December 31, 2015, 2014 and 2013 was $5.8 million, $5.5 million and $2.6 million, respectively. During the years ended December 31, 2015, 2014 and 2013, Kforce recognized stock-based compensation expense from continuing operations of $5.8 million, $3.0 million and $2.6 million, respectively. The related tax benefit for the years ended December 31, 2015, 2014 and 2013 was $2.3 million, $1.2 million and $1.0 million, respectively.

Stock Options

The following table presents the activity under each of the stock incentive plans discussed above for the three years ended December 31, 2015, 2014 and 2013 (in thousands, except per share amounts):

	Incentive Stock Option Plan	2006 Stock Incentive Plan	Total	Weighted Average Exercise Price Per Share	Total Intrinsic Value of Options Exercised
Exercisable as of December 31, 2012	154	93	247	$10.87	
Exercised	(57)	(10)	(67)	$ 8.98	$ 573
Exercisable as of December 31, 2013	97	83	180	$11.57	
Exercised	(57)	(48)	(105)	$11.61	$1,029
Forfeited/Cancelled	(18)	—	(18)	$11.00	
Exercisable as of December 31, 2014	22	35	57	$11.69	
Exercised	**(22)**	**(10)**	**(32)**	**$11.78**	**$ 359**
Exercisable as of December 31, 2015	**—**	**25**	**25**	**$11.58**	

The following table summarizes information about employee and director stock options under all of the plans mentioned above as of December 31, 2015 (in thousands, except per share amounts):

	Outstanding and Exercisable			
Range of Exercise Prices	Number of Awards (#)	Weighted Average Remaining Contractual Term (Yrs)	Weighted Average Exercise Price ($)	Total Intrinsic Value
$9.13—$14.45	25	1.57	$11.58	$342

No compensation expense was recorded during the years ended December 31, 2015, 2014 or 2013 as a result of the grant date fair value having been fully amortized as of December 31, 2009. As of December 31, 2015, there was no unrecognized compensation cost related to non-vested options.

Restricted Stock

Kforce's annual restricted stock grants made to executives and management are generally based on the extent by which annual long-term incentive performance goals, which are established by Kforce's Compensation Committee during the first quarter of the year of performance, have been met, as determined by the Compensation Committee. Additionally, Kforce, with the approval of the Compensation Committee, grants restricted stock in varying amounts as determined appropriate during the year to retain executives and management. Restricted stock granted during the year ended December 31, 2015 will vest over a period of between one to ten years, with equal vesting annually.

During the three months ended March 31, 2014, the Firm modified all awards containing a performance-acceleration feature that were granted during the three months ended December 31, 2013, as follows: (1) eliminated the performance-acceleration feature and (2) changed the time-based vesting term to five years, with equal vesting annually. The total number of restricted shares impacted by this modification was 268 thousand, excluding already forfeited shares, and the number of employees impacted was 87. The total incremental compensation cost resulting from the modification was $109 thousand, which will be amortized on a straight-line basis over the requisite service period of the modified awards.

Restricted stock contain the same voting rights as other common stock and are included in the number of shares of common stock issued and outstanding. Restricted stock contain the right to forfeitable dividends in the form of additional shares of restricted stock at the same rate as the cash dividend on common stock and containing the same vesting provisions as the underlying award. The following table presents the activity for the three years ended December 31, 2015 (in thousands, except per share amounts):

	Number of Restricted Stock	Weighted Average Grant Date Fair Value	Total Intrinsic Value of Restricted Stock Vested
Outstanding as of December 31, 2012	38	$12.11	
Granted	904	$16.72	
Vested	(109)	$14.15	$2,092
Forfeited	(22)	$15.43	
Outstanding as of December 31, 2013	811	$16.89	
Granted	528	$20.18	
Vested	(273)	$17.37	$5,624
Forfeited	(84)	$18.38	
Outstanding as of December 31, 2014	982	$18.55	
Granted	**556**	**$24.01**	
Vested	**(186)**	**$18.28**	**$4,580**
Forfeited	**(59)**	**$19.37**	
Outstanding as of December 31, 2015	**1,293**	**$20.89**	

The fair market value of restricted stock is determined based on the closing stock price of Kforce's common stock at the date of grant, and is amortized on a straight-line basis over the requisite service period.

In connection with the disposition of HIM, as discussed within Note 2—"Discontinued Operations," stock-based compensation related to acceleration of restricted stock was approximately $0.6 million during the year ended December 31, 2014.

In connection with the Firm's organizational realignment, Kforce terminated two of its covered executive officers during the three months ended December 31, 2013. In connection with their termination, Kforce accelerated the vesting of their restricted stock and, as a result, accelerated all of the related unrecognized compensation expense associated with these awards of $1.1 million during the year ended December 31, 2013.

As of December 31, 2015, total unrecognized compensation expense related to restricted stock was $18.4 million, which will be recognized over a weighted average remaining period of 4.4 years.

Common Stock

As discussed within Note 2—"Discontinued Operations," the transaction expense related to the sale of HIM included commissions and transaction bonuses paid by the Firm in the form of Kforce common stock. As a result, during the year ended December 31, 2014, Kforce issued 92 thousand shares of common stock and recognized stock-based compensation expense of approximately $1.8 million.

14. ORGANIZATIONAL REALIGNMENT

During October 2013, the Firm 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. The new organizational design was intended to provide improved accountability and deliver better results for our clients, consultants and core personnel. As a result of the organizational realignment, Kforce incurred severance and termination-related expenses of $7.1 million during the three months ended December 31, 2013, which was recorded within Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations and Comprehensive Income.

15. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Kforce leases space and operating assets under operating and capital leases expiring at various dates, with some leases cancelable upon 30 to 90 days' notice and with some leases containing escalation in rent clauses. The leases require Kforce to pay taxes, insurance and maintenance costs, in addition to rental payments.

Future minimum lease payments, inclusive of accelerated lease payments, under non-cancelable capital and operating leases are summarized as follows (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Capital leases							
Present value of payments	$ 837	$ 594	$ 351	$ 67	$ —	$—	$ 1,849
Interest	106	36	25	7	—	—	174
Capital lease payments	$ 943	$ 630	$ 376	$ 74	$ —	$—	$ 2,023
Operating leases							
Facilities	$7,886	$6,031	$3,691	$1,914	$606	$—	$20,128
Furniture and equipment	84	—	—	—	—	—	84
Total operating leases	$7,970	$6,031	$3,691	$1,914	$606	$—	$20,212
Total leases	$8,913	$6,661	$4,067	$1,988	$606	$—	$22,235

The present value of the minimum lease payments for capital lease obligations has been classified in Other current liabilities and Long-term debt—other in the accompanying Consolidated Balance Sheets, according to their respective maturities. Rental expense under operating leases was $6.7 million, $5.6 million and $5.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Purchase Commitments

Kforce has entered into various commitments including, among others, a compensation software hosting and licensing arrangement, and a commitment for data center fees for certain of our information technology applications. As of December 31, 2015, these commitments amounted to approximately $15.3 million and are expected to be paid as follows: $9.6 million in 2016; $4.5 million in 2017; $1.1 million in 2018; $0.1 million in 2019; and nil in 2020.

Letters of Credit

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2015, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling $3.2 million, and for facility lease deposits totaling $0.5 million.

Litigation

We are involved in legal proceedings, claims, and administrative matters that arise in the ordinary course of our business. We have made accruals with respect to certain of these matters, where appropriate, that are reflected in our 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.

Tax Audits

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2015, there were no ongoing IRS examinations. During 2014, the IRS finished an examination of Kforce's U.S. income tax return for 2010 and 2011 with no material adjustments. Although Kforce has not experienced any material liabilities in the past due to income tax audits, Kforce can make no assurances concerning any future income tax audits.

Employment Agreements

Kforce has entered into employment agreements with certain executives that provide for minimum compensation, salary and continuation of certain benefits for a six-month to a three-year period after their employment ends under certain circumstances. Certain of the agreements also provide for a severance payment of one to three times annual salary and one-half to three times average annual bonus if such an agreement is terminated without good cause by Kforce or for good reason by the executive. These agreements contain certain post-employment restrictive covenants. Kforce's liability at December 31, 2015 would be approximately $46.3 million if, following a change in control, all of the executives under contract were terminated without good cause by the employer or if the executives resigned for good reason and $19.8 million if, in the absence of a change in control, all of the executives under contract were terminated by Kforce without good cause or if the executives resigned for good reason.

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

16. REPORTABLE SEGMENTS

Kforce's reportable segments are as follows: (1) Tech; (2) FA; and (3) GS. This determination is supported by, among other factors: the existence of individuals responsible for the operations of each segment and who also report directly to our chief operating decision maker ("CODM"), the nature of the segment's operations and information presented to the Board of Directors and our CODM. Kforce also reports Flexible billings and Direct Hire fees separately by segment, which has been incorporated into the table below. The following table has been updated to reflect the disposition of HIM. As described in Note 2—"Discontinued Operations," all revenues and gross profit associated with the discontinued operations have been recorded within Income from discontinued operations, net of taxes, in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Historically, and through our year ended December 31, 2015, Kforce has generated only sales and gross profit information on a segment basis. Substantially all operations and long-lived assets are located in the United States. We do not report total assets or income from continuing operations separately by segment as our operations are largely combined.

The following table provides information concerning the operations of our segments for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Tech	FA	GS	Total
2015				
Net service revenues				
Flexible billings	**$873,609**	**$294,186**	**$97,372**	**$1,265,167**
Direct Hire fees	**22,333**	**31,738**	**—**	**54,071**
Total revenue	**$895,942**	**$325,924**	**$97,372**	**$1,319,238**
Gross profit	**$261,721**	**$119,036**	**$33,357**	**$ 414,114**
Operating expenses				**342,442**
Income from continuing operations, before income taxes				**$ 71,672**
2014				
Net service revenues				
Flexible billings	$823,311	$249,274	$98,051	$1,170,636
Direct Hire fees	19,158	27,537	—	46,695
Total revenue	$842,469	$276,811	$98,051	$1,217,331
Gross profit	$243,085	$101,071	$30,425	$ 374,581
Operating expenses				326,624
Income from continuing operations, before income taxes				$ 47,957
2013				
Net service revenues				
Flexible billings	$720,179	$213,158	$91,949	$1,025,286
Direct Hire fees	19,183	29,259	—	48,442
Total revenue	$739,362	$242,417	$91,949	$1,073,728
Gross profit	$219,360	$ 93,663	$31,353	$ 344,376
Operating expenses				333,447
Income from continuing operations, before income taxes				$ 10,929

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

The quarterly financial data presented below has been adjusted, where applicable, to reflect the discontinued operations of HIM, which is more fully described in Note 2—"Discontinued Operations." Certain prior quarter amounts have been reclassified to conform with current year presentation and may not tie back to quarterly filings. The following table provides quarterly information for the years ended December 31, 2015 and 2014 (in thousands, except per share amounts):

Three Months Ended	March 31,	June 30,	Sept. 30,	Dec. 31,
2015				
Net service revenues	**$312,611**	**$337,353**	**$341,575**	**$327,699**
Gross profit	**94,740**	**106,038**	**109,821**	**103,515**
Income from continuing operations, net of income taxes	**5,785**	**11,593**	**13,545**	**11,901**
Income from discontinued operations, net of income taxes	**—**	**—**	**—**	**—**
Net income	**5,785**	**11,593**	**13,545**	**11,901**
Earnings per share—basic	**$0.20**	**$0.41**	**$0.49**	**$0.43**
Earnings per share—diluted	**$0.20**	**$0.41**	**$0.48**	**$0.43**
2014				
Net service revenues	$282,024	$302,758	$313,810	$318,739
Gross profit	83,526	94,386	98,291	98,378
Income from continuing operations, net of income taxes	4,389	7,953	7,995	9,061
Income (loss) from discontinued operations, net of income taxes	1,860	2,750	57,023	(116)
Net income	6,249	10,703	65,018	8,945
Earnings per share-basic	$0.19	$0.33	$2.07	$0.30
Earnings per share-diluted	$0.19	$0.33	$2.06	$0.30

During the third quarter of 2014, in connection with the disposition of HIM, the income from discontinued operations included a gain, net of transactions costs, on the sale of discontinued operations of $94.3 million pretax, or $56.1 million after tax. The transactions costs primarily included legal fees, stock-based compensation related to the acceleration of restricted stock, commissions and transaction bonuses in the form of cash and common stock, which in the aggregate, totaled $11.0 million. Stock-based compensation related to the acceleration of restricted stock and transaction bonuses paid in stock in lieu of cash was $2.4 million.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows for the year ended December 31 (in thousands):

	2015	2014	2013
Cash paid during the period for:			
Income taxes, net	**$25,395**	$52,565	$14,789
Interest, net	**$ 1,609**	$ 1,048	$ 800
Non-Cash Transaction Information:			
Shares tendered in payment of exercise price of stock options	**$ —**	$ 84	$ —
Employee stock purchase plan	**$ 578**	$ 699	$ 613
Equipment acquired under capital leases	**$ 1,470**	$ 313	$ 1,929
Unsettled repurchases of common stock	**$ 1,012**	$ 1,425	$ —
Contingent consideration for acquisition	**$ —**	$ 477	$ —

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CORPORATE INFORMATION

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A. Gordon Tunstall
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Chief Executive Officer,
Tunstall Consulting

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Joseph J. Liberatore
President

David M. Kelly
Chief Financial Officer
and Secretary

Michael R. Blackman
Chief Corporate Development Officer

Robert W. Edmund
General Counsel and
Assistant Secretary

CORPORATE COUNSEL

Holland & Knight LLP
Tampa, Florida

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Tampa, Florida

TRANSFER AGENT

Computershare Trust Company, N.A.
PO Box 43078
Providence, RI 02940-3078
www.computershare.com
Shareholder Inquiries:
1 (877) 282-1168

FORM 10-K AVAILABLE

A copy of the Kforce Inc.'s Annual Report on Form 10-K (excluding exhibits thereto) is available to any investor without charge upon written request to:

Michael R. Blackman
Chief Corporate Development Officer
Kforce Inc.
1001 East Palm Avenue
Tampa, Florida 33605

Or contact us at www.kforce.com or call Investor Relations:
1 (813) 552-2927.

ANNUAL MEETING

The annual meeting of shareholders will be held on April 19, 2016 at 8:00 a.m. at Kforce Inc. headquarters in Tampa, Florida.

WEBSITE INFORMATION

For a comprehensive profile of Kforce Inc., visit the Firm's website at: www.kforce.com.

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Corporate Headquarters: 1001 East Palm Avenue, Tampa, Florida 33605, 1 (813) 552-5000

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