

KFORCE INC
Form 10-Q
April 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____
Commission File Number 000-26058

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

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of April 27, 2015 was 29,592,042.

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KFORCE INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2015

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted. Future events and actual results could differ materially from those set forth in or underlying the forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained in this report, which speak only as of the date of this report. Kforce undertakes no obligation to publicly publish the results of any adjustments to these forward-looking statements that may be made to reflect events on or after the date of this report or to reflect the occurrence of unexpected events.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Net service revenues	\$312,611	\$282,024
Direct costs of services	217,871	198,498
Gross profit	94,740	83,526
Selling, general and administrative expenses	82,352	73,737
Depreciation and amortization	2,397	2,356
Income from operations	9,991	7,433
Other expense, net	453	337
Income from continuing operations, before income taxes	9,538	7,096
Income tax expense	3,753	2,707
Income from continuing operations	5,785	4,389
Income from discontinued operations, net of income taxes	—	1,860
Net income	5,785	6,249
Other comprehensive income (loss):		
Defined benefit pension and post-retirement plans, net of tax	1	(35)
Comprehensive income	\$5,786	\$6,214
Earnings per share – basic:		
From continuing operations	\$0.20	\$0.13
From discontinued operations	\$—	\$0.06
Earnings per share – basic	\$0.20	\$0.19
Earnings per share – diluted		
From continuing operations	\$0.20	\$0.13
From discontinued operations	\$—	\$0.06
Earnings per share – diluted	\$0.20	\$0.19
Weighted average shares outstanding – basic	28,276	32,969
Weighted average shares outstanding – diluted	28,475	33,168
Cash dividends declared per share	\$0.11	\$0.10

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

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	March 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$1,928	\$1,238
Trade receivables, net of allowances of \$2,338 and \$2,040, respectively	203,483	204,710
Income tax refund receivable	723	3,311
Deferred tax assets, net	4,790	4,980
Prepaid expenses and other current assets	10,237	10,170
Total current assets	221,161	224,409
Fixed assets, net	35,174	35,330
Other assets, net	30,556	30,349
Deferred tax assets, net	22,360	22,855
Intangible assets, net	4,819	5,011
Goodwill	45,968	45,968
Total assets	\$360,038	\$363,922
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued liabilities	\$37,618	\$38,104
Accrued payroll costs	48,670	52,208
Other current liabilities	1,011	986
Income taxes payable	3,061	2,885
Total current liabilities	90,360	94,183
Long-term debt – credit facility	94,326	93,333
Long-term debt – other	465	562
Other long-term liabilities	37,982	36,456
Total liabilities	223,133	224,534
Commitments and contingencies (see Note C)		
Stockholders' Equity:		
Preferred stock, \$0.01 par; 15,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par; 250,000 shares authorized, 70,483 and 70,029 issued, respectively	705	700
Additional paid-in capital	414,644	412,642
Accumulated other comprehensive loss	(370)	(371)
Retained earnings	127,908	125,378
Treasury stock, at cost; 40,911 and 40,616 shares, respectively	(405,982)	(398,961)
Total stockholders' equity	136,905	139,388
Total liabilities and stockholders' equity	\$360,038	\$363,922

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

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

	Three Months Ended March 31, 2015	
Common stock – shares:		
Shares at beginning of period	70,029	
Issuance for stock-based compensation and dividends, net of forfeitures	432	
Exercise of stock options	22	
Shares at end of period	70,483	
Common stock – par value:		
Balance at beginning of period	\$700	
Issuance for stock-based compensation and dividends, net of forfeitures	5	
Exercise of stock options	0	
Balance at end of period	\$705	
Additional paid-in capital:		
Balance at beginning of period	\$412,642	
Issuance for stock-based compensation and dividends, net of forfeitures	139	
Exercise of stock options	245	
Income tax benefit from stock-based compensation	236	
Stock-based compensation expense	1,291	
Employee stock purchase plan	91	
Balance at end of period	\$414,644	
Accumulated other comprehensive (loss) income:		
Balance at beginning of period	\$(371))
Pension plans, net of tax of \$1	1	
Balance at end of period	\$(370))
Retained earnings:		
Balance at beginning of period	\$125,378	
Net income	5,785	
Dividends, net of forfeitures (\$0.11 per share)	(3,255))
Balance at end of period	\$127,908	
Treasury stock – shares:		
Shares at beginning of period	40,616	
Repurchases of common stock	302	
Employee stock purchase plan	(7))
Shares at end of period	40,911	
Treasury stock – cost:		
Balance at beginning of period	\$(398,961))
Repurchases of common stock	(7,082))
Employee stock purchase plan	61	
Balance at end of period	\$(405,982))

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

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net income	\$5,785	\$6,249
Adjustments to reconcile net income to cash provided by operating activities:		
Deferred income tax provision, net	686	1,976
Provision for bad debts on accounts receivable	1,047	469
Depreciation and amortization	2,400	2,363
Stock-based compensation	1,291	799
Pension and post-retirement benefit plans expense	492	378
Amortization of deferred financing costs	31	22
Excess tax benefit attributable to stock-based compensation	(236)	(33)
Deferred compensation liability increase, net	639	330
Gain on cash surrender value of Company-owned life insurance	(565)	(230)
Other	6	—
Decrease (increase) in operating assets		
Trade receivables, net	180	(9,218)
Income tax refund receivable	2,588	2,446
Prepaid expenses and other current assets	(68)	(1,277)
Other assets, net	(90)	6
(Decrease) increase in operating liabilities		
Accounts payable and other current liabilities	(201)	(3,452)
Accrued payroll costs	(3,385)	2,112
Income taxes payable	413	3,798
Other long-term liabilities	395	(799)
Cash provided by operating activities	11,408	5,939
Cash flows from investing activities:		
Capital expenditures	(1,389)	(1,210)
Proceeds from the disposition of assets held within the Rabbi Trust	—	1,006
Purchase of assets held within the Rabbi Trust	—	(837)
Cash used in investing activities	(1,389)	(1,041)
Cash flows from financing activities:		
Proceeds from bank line of credit	157,806	98,975
Payments on bank line of credit	(156,813)	(100,366)
Payments of capital expenditure financing	(324)	(304)
Short-term vendor financing	1,140	(127)
Proceeds from exercise of stock options	245	467
Excess tax benefit attributable to stock-based compensation	236	33
Payment of loan financing fees	—	(35)
Repurchases of common stock	(8,507)	(293)
Cash dividend	(3,112)	(3,307)
Cash used in financing activities	(9,329)	(4,957)
Change in cash and cash equivalents	690	(59)
Cash and cash equivalents at beginning of period	1,238	875
Cash and cash equivalents at end of period	\$1,928	\$816

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

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KFORCE INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies

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

Organization and Nature of Operations

Kforce Inc. and its subsidiaries (collectively, "Kforce") provide professional staffing services and solutions to customers in the following segments: Technology ("Tech"), Finance and Accounting ("FA"), and Government Solutions ("GS"). Kforce provides flexible staffing services and solutions on both a temporary and full-time basis. Kforce operates through its corporate headquarters in Tampa, Florida and 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 both the three months ended March 31, 2015 and 2014 and are included in our Tech segment.

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

Basis of Presentation

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

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

Principles of Consolidation

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

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Use of Estimates

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

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 months ended March 31, 2015 and 2014 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Income from continuing operations	\$5,785	\$4,389
Income from discontinued operations, net of tax	—	1,860
Net income	\$5,785	\$6,249
Denominator:		
Weighted average shares outstanding – basic	28,276	32,969
Common stock equivalents	199	199
Weighted average shares outstanding – diluted	28,475	33,168
Earnings per share – basic:		
From continuing operations	\$0.20	\$0.13
From discontinued operations	—	0.06
Earnings per share – basic	\$0.20	\$0.19
Earnings per share – diluted:		
From continuing operations	\$0.20	\$0.13
From discontinued operations	—	0.06
Earnings per share – diluted	\$0.20	\$0.19

For both the three months ended March 31, 2015 and 2014, the weighted average diluted common shares had no significant common stock equivalents excluded based on the fact that their inclusion would have had an anti-dilutive effect on earnings per share.

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Dividends

Kforce's Board of Directors ("Board") may, at its discretion, declare and pay dividends on the outstanding shares of Kforce's common stock out of retained earnings, subject to statutory requirements. Dividends for any outstanding and unvested restricted stock as of the record date are awarded in the form of additional shares of forfeitable restricted stock, at the same rate as the cash dividend on common stock and based on the closing stock price on the record date. Such additional shares have the same vesting terms and conditions as the outstanding and unvested restricted stock. The following summarizes the cash dividends declared for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Cash dividends declared per share	\$0.11	\$0.10

Kforce currently expects to continue to declare and pay quarterly dividends of an amount similar to our March 2015 dividend of \$0.11 per share. However, the declaration and payment of future dividends are discretionary and will be subject to determination by our Board each quarter following its review of, among other things, our financial performance and our legal ability to pay dividends.

New Accounting Standards

In April 2015, the FASB issued authoritative guidance 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.

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. This guidance is to be applied for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods, and will require enhanced disclosures. Kforce is currently evaluating the potential impact of the accounting and disclosure requirements on the consolidated financial statements; we do not currently anticipate a material impact to the consolidated financial statements upon adoption.

Note B - Discontinued Operations

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

In connection with the sale, Kforce entered into a Transition Services Agreement (the "TSA") with the Purchaser to provide certain post-closing transitional services for a period not to exceed 12 months. The fees for these services are and will continue to be generally equivalent to Kforce's cost, and additional services may be provided at negotiated rates. Although the services provided under the TSA generate continuing cash flows between Kforce and the Purchaser, the amounts are not considered to be direct cash flows of the discontinued operation nor are they significant to the ongoing operations of either entity. Kforce has no contractual ability through the TSA, the SPA or any other agreement to significantly influence the operating or financial policies of the Purchaser. As a result, Kforce has no significant continuing involvement in the operations of KHI and, as such, has classified the operating results of the former HIM reporting segment as discontinued operations.

In accordance with and defined within the SPA, Kforce is 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 will, with the exception of certain items, cease 12 months after the sale closed and are 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 and, as a result, has not recorded a liability as of March 31, 2015.

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The total financial results of HIM have been presented as discontinued operations in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income. The following summarizes the revenues and pretax profits of HIM for the three months ended March 31, 2014 (in thousands):

	Three Months Ended March 31, 2014
Net service revenues	\$23,288
Income from discontinued operations, before income taxes	\$3,065

Note C - Commitments and Contingencies

Litigation

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

On February 19, 2014, the United States District Court for the Middle District of Florida unsealed a qui tam complaint that had been filed by a terminated former employee in June of 2013. The complaint was filed against Kforce and Kforce Government Solutions Inc., was captioned United States of America and William Turner, Relator v. Kforce Government Solutions Inc. and Kforce Inc., Case No. 8:13-cv-1517-T-36TBM, and was amended on April 14, 2014. The amended complaint alleges False Claims Act and federal and state whistleblower statute violations and certain accounting irregularities, as well as employment law and defamation claims. On June 13, 2014, the defendants filed a motion to dismiss the complaint. On October 8, 2014, the United States government filed a notice of its election to decline to intervene in the case. On November 10, 2014, the court granted the defendants' motion to dismiss all federal claims with prejudice, and also dismissed the state law claims without prejudice for lack of jurisdiction. Mr. Turner appealed the court's ruling to the United States Court of Appeals for the Eleventh Circuit. Mr. Turner's claims were subsequently resolved and his appeal is expected to be dismissed.

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 March 31, 2015 would be approximately \$41.6 million if, following a change in control, all of the executives under contract were terminated without good cause by the employer or if the executives resigned for good reason and \$19.2 million if, in the absence of a change in control, all of the executives under contract were terminated by Kforce without good cause or if the executives resigned for good reason.

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

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Note D - Employee Benefit Plans

Foreign Pension Plan

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

For the three months ended March 31, 2015 and 2014, net periodic benefit cost was \$66 thousand and \$64 thousand, respectively. The net periodic benefit cost recognized for the three months ended March 31, 2015 was based upon the actuarial valuation as of the beginning of the year, which utilized the assumptions noted in our 2014 Annual Report on Form 10-K.

As of March 31, 2015 and December 31, 2014, the projected benefit obligation associated with our Foreign Pension Plan was \$1.7 million and \$1.6 million, respectively, which is classified in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. There is no requirement for Kforce to fund the Foreign Pension Plan and, as a result, no contributions were made to the Foreign Pension Plan during the three months ended March 31, 2015. Kforce does not currently anticipate funding the Foreign Pension Plan during the year ending December 31, 2015.

Supplemental Executive Retirement Plan

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

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

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

The following represents the components of net periodic benefit cost for the three months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,	
	2015	2014
Service cost	\$330	\$291
Interest cost	96	74
Net periodic benefit cost	\$426	\$365

The net periodic benefit cost recognized for the three months ended March 31, 2015 was based upon the actuarial valuation as of the beginning of the year, which utilized the assumptions noted in our 2014 Annual Report on Form

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The present value of the projected benefit obligation as of March 31, 2015 and December 31, 2014 was \$10.6 million and \$10.2 million, respectively, and is recorded in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. There is no requirement for Kforce to fund the SERP and, as a result, no contributions were made to the SERP during the three months ended March 31, 2015. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2015.

Supplemental Executive Retirement Health Plan

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

During the three months ended March 31, 2014, Kforce made a lump sum payment of \$0.6 million to a participant in the SERHP in order to settle all future benefit payments due under the SERHP, resulting in a settlement gain of \$122 thousand. Additionally, during September 2014, Kforce made lump sum payments to all remaining participants in the SERHP in order to terminate the SERHP and to settle all future benefit payments due under the SERHP. This termination effectively removed Kforce's related post-retirement benefit obligation.

The following represents the components of net periodic post-retirement benefit cost for the three months ended March 31, 2014 (in thousands):

	Three Months Ended March 31, 2014	
Service cost	\$58	
Interest cost	26	
Settlement/curtailment loss/(gain)	(122)
Net periodic benefit cost	\$(38)

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

Note E - Fair Value Measurements

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

The 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.

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

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

Assets/(Liabilities) Measured at Fair Value:	Asset/(Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2015				
Recurring basis:				
Contingent liability (1)	\$ (477)	\$ —	\$ —	\$ (477)
As of December 31, 2014				
Recurring basis:				
Contingent liability (1)	\$ (477)	\$ —	\$ —	\$ (477)

(1) The contingent liability relates to the acquisition of a business within our GS reporting segment in the fourth quarter of 2014.

Note F - 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, stock appreciation rights ("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.

During the three months ended March 31, 2015 and 2014, Kforce recognized total stock-based compensation expense of \$1.3 million and \$0.8 million, respectively. During the three months ended March 31, 2015 and 2014, Kforce recognized stock-based compensation expense from continuing operations of \$1.3 million and \$0.8 million, respectively.

Stock Options

The following table presents the activity under each of the stock incentive plans discussed above for the three months ended March 31, 2015 (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
Outstanding and Exercisable as of December 31, 2014	22	35	57	\$11.69	
Exercised	(22)	—	(22)	\$11.00	\$269
Forfeited/Canceled	—	—	—	\$—	
Outstanding and Exercisable as of March 31, 2015	—	35	35	\$12.14	

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

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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 three months ended March 31, 2015 primarily vests over a period of five years with 20% of the awards 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 months ended March 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, 2014	982	\$18.55	
Granted	441	\$24.09	
Forfeited/Canceled	(9)	\$19.48	
Vested	(69)	\$17.10	\$1,672
Outstanding as of March 31, 2015	1,345	\$20.43	

The fair market value of restricted stock is determined based on the closing stock price of Kforce's common stock at the date of grant, and is amortized on a straight-line basis over the requisite service period. As of March 31, 2015, total unrecognized compensation expense related to restricted stock was \$19.5 million, which will be recognized over a weighted average remaining period of 4.7 years.

Note G - Goodwill and Intangible Assets

The following table sets forth the activity in goodwill and other intangible assets during the three months ended March 31, 2015 (in thousands):

	Goodwill	Intangible Assets, Net
Balance as of December 31, 2014	\$45,968	\$5,011
Amortization of intangible assets	—	(192)
Balance as of March 31, 2015	\$45,968	\$4,819

As of March 31, 2015 and December 31, 2014, intangible assets, net in the accompanying Unaudited Condensed Consolidated Balance Sheets consisted of \$2.6 million and \$2.8 million, respectively, of definite-lived intangible assets including customer relationships, customer contracts, technology and other and \$2.2 million of an indefinite-lived intangible asset including a trade name and trademark.

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As of March 31, 2015 and December 31, 2014, accumulated amortization for intangible assets was \$26.0 million and \$25.8 million, respectively. The following table presents the estimated amortization expense for intangibles over the next five years and thereafter (in thousands):

Remainder of 2015	\$575
2016	589
2017	341
2018	341
2019	330
Thereafter	402