

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

**FORM 10-K**

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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  
(State or other jurisdiction of  
incorporation or organization)  
  
1001 EAST PALM AVENUE, TAMPA, FLORIDA  
(Address of principal executive offices)

59-3264661  
(IRS Employer  
Identification No.)  
  
33605  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (813) 552-5000

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

TITLE OF EACH CLASS

None

NAME OF EACH EXCHANGE ON WHICH REGISTERED

None

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

Common Stock, \$0.01 par value  
(Title of Class)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2008, was approximately \$203,069,171. For purposes of this determination, common stock held by each officer and director and by each person who owns 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock as of March 6, 2009, was 38,203,442.

DOCUMENTS INCORPORATED BY REFERENCE:

**Document**

Portions of Proxy Statement for the Annual Meeting of Shareholders to be held June 16, 2009 ("Proxy Statement")

**Parts Into Which Incorporated**

Part III

**KFORCE INC.**  
**ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008**  
**TABLE OF CONTENTS**

**PART I**

|          |  |    |
|----------|--|----|
| Item 1.  | <a href="#"><u>Business</u></a>  | 3  |
| Item 1A. | <a href="#"><u>Risk Factors</u></a>  | 8  |
| Item 1B. | <a href="#"><u>Unresolved Staff Comments</u></a>                           | 15 |
| Item 2.  | <a href="#"><u>Properties</u></a>  | 15 |
| Item 3.  | <a href="#"><u>Legal Proceedings</u></a>                                   | 16 |
| Item 4.  | <a href="#"><u>Submission of Matters to a Vote of Security Holders</u></a> | 16 |

**PART II**

|          |   |    |
|----------|---|----|
| Item 5.  | <a href="#"><u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a> | 16 |
| Item 6.  | <a href="#"><u>Selected Financial Data</u></a>  | 18 |
| Item 7.  | <a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>                        | 19 |
| Item 7A. | <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>   | 34 |
| Item 8.  | <a href="#"><u>Financial Statements and Supplementary Data</u></a>  | 35 |
| Item 9.  | <a href="#"><u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u></a>                         | 68 |
| Item 9A. | <a href="#"><u>Controls and Procedures</u></a>  | 68 |
| Item 9B. | <a href="#"><u>Other Information</u></a>  | 68 |

**PART III**

|          |   |    |
|----------|---|----|
| Item 10. | <a href="#"><u>Directors, Executive Officers and Corporate Governance</u></a>   | 69 |
| Item 11. | <a href="#"><u>Executive Compensation</u></a>   | 69 |
| Item 12. | <a href="#"><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a> | 69 |
| Item 13. | <a href="#"><u>Certain Relationships and Related Transactions, and Director Independence</u></a>                      | 69 |
| Item 14. | <a href="#"><u>Principal Accounting Fees and Services</u></a>   | 69 |

**PART IV**

|          |   |    |
|----------|---|----|
| Item 15. | <a href="#"><u>Exhibits, Financial Statement Schedule</u></a> | 69 |
|----------|---|----|

**SIGNATURES**

71

**SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

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

This report, particularly Item 1A, Risk Factors and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), and the documents we incorporate into this report, contain certain statements that are, or may be deemed to be, forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are made in reliance upon the protections provided by such Acts for forward-looking statements. Such statements may include, but may not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, future prospects, anticipated costs and benefits of proposed (or future) acquisitions, integration of acquisitions, plans for future operations, capabilities of business operations, effects of interest rate variations, financing needs or plans, plans relating to products or services of Kforce, estimates concerning the effects of litigation or other disputes, 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 “anticipates,” “estimates,” “expects,” “intends,” “plans,” “believes,” “will,” “may,” “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.

## PART I

### Item 1. *Business*

#### *Company Overview*

We are a national provider of professional and technical specialty staffing services and solutions and operate through our corporate headquarters in Tampa, Florida as well as our 63 field offices, which cover 41 markets throughout the United States, and two offices in Manila, Philippines. Kforce is a Florida corporation and was formed in August 1994 as a result of the combination of Romac & Associates, Inc. and three of its largest franchises. Kforce completed its Initial Public Offering in August 1995. We provide our clients staffing services and solutions through four business segments: Technology (“Tech”), Finance and Accounting (“FA”), Health and Life Sciences (“HLS”) and Government Solutions (“GS”). The HLS segment includes our Clinical Research and Healthcare specialties. While substantial portions of the sales and delivery functions of our HLS segment are located at our corporate headquarters, substantially all of the staffing services for Tech and FA are sold and delivered through our various field offices. Substantially all GS services are supplied to the federal government, which we serve either as a prime contractor or subcontractor through field offices located in the Washington D.C. and San Antonio, Texas areas. Kforce Global Solutions, Inc., one of our subsidiaries, provides outsourcing solutions internationally through two offices located in Manila. Our international operations comprised approximately 1% of net service revenues for the three years ended December 31, 2008.

In addition to the traditional “back office” support services such as payroll, billing, accounting, legal, treasury and tax, which are highly centralized, our headquarters provides support services to our field offices in areas such as human resources, nationwide recruiting, training, marketing, and national sales initiatives.

Kforce is focused on providing “staffing solutions” services to our clients, which services include flexible staffing (“Flex”) and search (“Search”).

#### *Flex*

We provide our clients with qualified individuals (“consultants”) on a temporary basis when it is determined that the consultants have the appropriate skills and experience and they are “the right match” for our clients. In order to be successful in this staffing service, our employees (“associates”) endeavor to: (1) understand and acknowledge the 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. Proper execution by our associates and our consultants directly impacts the longevity of the assignments as well as increases the likelihood of being able to generate repeat business with our clients.

According to data published by the U.S. Bureau of Labor Statistics (“BLS”), professional temporary staffing has increased as a percentage of total U.S. non-farm payrolls from approximately 0.30% in 1990 to 0.75% in 2008. We believe this trend will continue to increase in the future as employers seek a greater variable payroll cost structure, especially in a time of economic uncertainty. According to a recent report by Staffing Industry Analysts (“SIA”), employers using employees on a temporary basis obtain approximately 78.0% of these employees from temporary staffing firms, and we believe that this will continue to drive demand for our Flex business.

The Flex business comprised 93.4% of our revenues for the year ended December 31, 2008 and is driven by the number of total hours billed and billing rates. Flex gross profit is determined by deducting consultant pay, benefits and other related costs from Flex revenues. Flex 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 administrative and corporate compensation. The Flex business model involves attempting to maximize consultant hours and billing rates, while optimizing consultant pay rates and benefit costs, as well as compensation and benefits for our core associates. Flex revenues also include solutions provided through our GS segment. This revenue involves providing longer term contract services to the customer primarily on a time and materials basis.

#### *Search*

The Search business is a 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 structure for search fees is based upon a percentage of the placed individual’s annual compensation in their first year of employment, which is known at the time of placement. We recruit permanent employees from our Flex consultant population, from the job boards, our associates’ networks and from passive candidates we identify who are currently employed and not actively seeking another position. 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 also receive a Search fee (referred to as “conversion revenue”). Kforce targets clients and recruits for both Flex and Search services, which contributes to our objective of providing integrated solutions for all of our clients’ human capital needs.

Search 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 varies by contract, it is typically ninety days or less. This allowance for fallouts is estimated based upon historical experience with Search placements that did not complete the contingency period. There are no consultant payroll costs associated with Search placements and thus substantially all Search revenue increases gross profit by a like amount. Search associate commissions, compensation and benefits are included in SG&A.

In order to achieve greater stability in our revenue stream, Kforce management has deemphasized the contribution of Search revenues to total revenues over the last several years. Search revenues comprised 6.6% of total revenue in 2008 in contrast to in excess of 20% in 2000.

### ***Industry Overview***

We serve Fortune 1000 companies as well as the federal government, local and regional companies, and small to mid-sized companies. Our largest ten clients represented 19.5% of revenues for the year ended December 31, 2008. 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 ten largest publicly-traded specialty staffing firms in the United States. According to a recent report by SIA, 119 companies reported at least \$100 million in U.S. staffing revenue in 2007. Total revenue for the companies covered by SIA’s report was \$65.8 billion, with the largest staffing firm in terms of U.S. revenue holding a market share of approximately 8%. Competition in a particular market can come from many different companies, either large or small. We believe, however, that our geographic presence, diversified service offerings and disciplined focus on consistent sales and delivery, provide a competitive advantage, particularly with larger clients that have operations in multiple markets.

The specialty staffing industry is significantly impacted by the economic environment. Based upon past economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for substantial additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. We also believe that Flex demand generally increases before demand for permanent placements increases. In addition, we believe that each of the Tech, FA and HLS areas of functional focus will be among the higher growth categories in both the short and long-term. We also believe that temporary staffing will become a higher percentage of total U.S. non-farm payroll, particularly in the professional, technical and government areas, in the future.

According to an industry report, the United States temporary staffing industry generated estimated revenue of \$89.4 billion in 2005, \$94.8 billion in 2006 and \$96.7 billion in 2007, with projected revenue of \$93.9 billion in 2008 and \$86.1 billion in 2009. Of course, no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular.

Over the last three years, Kforce management has executed on a strategy to enter and significantly expand its presence in the federal government contracting space. Kforce acquired RDI Systems, Inc. in 2008 and acquired PCCI Holdings, Inc. and Bradson Corporation in 2006, each of which had a significant presence and reputation serving the federal government contracting space. We believe that the results of operations in the GS segment will have more stable growth during variable economic cycles. This is a result of the growth of the federal agencies that are customers of Kforce such as the Department of Defense and the Department of Homeland Security, and the increasing use of outsourced labor by many of these governmental agencies, in part to replace those employees who are reaching the age of retirement.

We believe that the streamlining of our operations and centralizing certain support functions have positioned us well for the future. We cannot, however, provide any assurances that customer demand for our specialty staffing services will grow. In addition, Kforce has a number of competitors that are increasingly utilizing a lower-priced preferred-vendor staffing model. Also, many clients are seeking “offshore” solutions, which could negatively impact many of the Kforce business segments. Finally, the specialty staffing sector is constantly faced with increasing competition for skilled candidates. Each of these factors, among others, may impact the future growth and profitability of Kforce.

### ***Business Strategy***

The key elements of our business strategy include the following:

*Focus on Value-Added Services.* We focus on providing specialty staffing services and solutions to our clients, specifically in the areas of Tech, FA, HLS, and GS. The placement of highly skilled personnel requires operational and technical skill to effectively recruit and screen personnel, match them to client needs, and manage the resulting relationships. We believe our historical focus in these markets, combined with our staff’s operating expertise, provides us with a competitive advantage.

*Build Long-Term, Consultative Relationships.* We believe we have developed long-term relationships with our clients by providing solutions to their specialty staffing requirements. We strive to differentiate ourselves by working closely with our clients to maximize their return on human assets. In addition, Kforce's ability to offer flexible staffing services, coupled with its permanent placement capability, offers the client a broad spectrum of specialty staffing services. We believe this ability enables Kforce to emphasize consultative rather than just transactional client relationships.

*Achieve Extensive Client Penetration.* Our client development process focuses on contacts with client employees responsible for staffing decisions. Contacts are made within functional departments and at different organizational levels within the client. Our associates are trained to develop a thorough understanding of each client's total staffing requirements.

*Recruit High-Quality Consultants.* We place great emphasis on recruiting qualified consultants. We believe we have a recruiting advantage over our competitors that lack the ability to offer candidates flexible and permanent opportunities. We frequently place candidates seeking permanent employment in flexible assignments until a permanent position becomes available, as well as convert temporary candidates into permanent employees of our client companies.

*Encourage Employee Achievement.* We promote a quality-focused, results-oriented culture. Our field associates and corporate personnel are given incentives (which include competitions with significant prizes, incentive trips and internal recognition, in addition to bonuses) to encourage the achievement of Kforce's corporate goals.

*Establish and Maintain our National Recruiting Center.* We believe our National Recruiting Center ("NRC") offers Kforce a competitive advantage. The NRC identifies and interviews active candidates from nationally contracted job boards as well as other sources. The NRC then forwards qualified candidates to Kforce field offices to be matched to available positions. The NRC primarily supports our Tech and FA segments; however, is also able to support our HLS segment.

## ***Operations Overview***

Kforce provides staffing services through the following operating segments:

*Technology.* The BLS lists computer and data processing services among the fastest-growing industries over the last decade. The shortage of technical expertise to operate, upgrade and maintain the advanced systems that businesses have acquired over the last decade is a major catalyst contributing to the growth of this segment. Our Tech services focus primarily on more sophisticated areas of information technologies (i.e., systems/applications programmers, systems analysts, and e-business and networking technicians). While our Tech flex revenues increased throughout each of the three years ended December 31, 2008 and we believe that the long-term business catalysts of technology remain in place, there can be no assurance that this growth will continue, especially in the current economic climate.

*Finance and Accounting.* Our FA personnel provide both temporary staffing and search placement services to our clients in areas such as taxation, budget preparation and analysis, financial reporting, cost analysis, accounts payable, accounts receivable, professional administrative, credit and collections, general accounting, audit services and systems and controls analysis and documentation to support compliance work under Section 404 of the Sarbanes-Oxley Act of 2002. We believe we have a reputation for providing qualified finance and accounting professionals to commercial businesses. Historically, this business segment typically experiences its strongest demand in the months preceding and subsequent to the end of the calendar year as the result of increased demand for professionals to work on year-end financial closing and tax-related assignments.

*Health and Life Sciences.* Our HLS segment consists of skilled professionals and technical services in the clinical research and health care fields. Examples of positions in these categories are: clinical research associates for the pharmaceutical industry and health care information management professionals for hospitals. This segment is also characterized by consultant contracts and relationships that are longer-term in nature as compared to our Tech and FA segments.

*Government Solutions.* The federal government is one of the largest consumers of information technology spending approximately \$68 billion in 2007. Our GS segment provides FA and Tech professionals to the federal government primarily as a prime contractor. We believe that our proven method for sourcing professional candidates for long-term staffing solutions assignments in combination with the prime contractor relationships, will allow us to pursue additional opportunities in the federal government sector. The BLS estimates that 50% of federal government employees and 70% of federal senior managers will become eligible to retire by 2010, which we believe represents a significant opportunity to Kforce. The recent acquisition of RDI Systems, Inc. was an important milestone for Kforce, as our GS segment now has annualized revenues in excess of \$100 million; which, when combined with RDI Systems' past performance credentials, provides this segment with access to more significant government contracts. Management believes that this will assist in our ability to sustain growth in the future.

Kforce organizes and manages its FA and Tech business units along regional market lines: Atlantic, North and Western markets. Kforce believes this operational alignment supports a more customer-centric organization, leverages our best leaders, leverages client relationships across functional offerings, and streamlines the organization by placing senior management closer to the customer as well as achieving greater cost-efficiency. The HLS and GS segments are organized and managed by specialty because of the unique operating characteristics of each business.

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.

### ***Acquisitions***

#### ***RDI Systems, Inc.***

On December 2, 2008, Kforce Government Holdings Inc., a Florida corporation (the "Purchaser"), a wholly-owned subsidiary of Kforce Inc., acquired all of the issued and outstanding common stock of RDI Systems, Inc. ("RDI"), d/b/a dNovus RDI, through a Stock Purchase Agreement (the "Agreement"), that was effective as of November 30, 2008.

Pursuant to the terms of the Agreement, Kforce acquired all of the outstanding stock of RDI for a total cash purchase price of \$38.9 million (the "RDI Purchase Price"). The cash consideration paid by Kforce was composed of Kforce's cash on hand and borrowings under Kforce's Credit Facility. On the closing date, Kforce placed \$3.0 million of the RDI Purchase Price into escrow to secure RDI's indemnification obligations and to satisfy certain adjustments to the RDI Purchase Price, which has been recorded as part of the purchase price.

#### ***Bradson Corporation***

During October 2006, Kforce entered into and closed a Stock Purchase Agreement (the "Stock Purchase Agreement") with Bradson Corporation ("Bradson"). Bradson was a privately-held company based in Arlington, Virginia, and was a prime contractor of finance and accounting professional services to federal government agencies such as the Department of Defense and the Department of Homeland Security for over 20 years.

Pursuant to the terms of the Stock Purchase Agreement, KGH acquired all of the outstanding capital stock of Bradson for a purchase price of \$73.3 million (the "Purchase Price"), which was subject to Bradson delivering a minimum of \$4.0 million in working capital at the time of closing. The cash consideration paid by KGH was composed of Kforce's cash on hand and borrowings under Kforce's credit facility.

#### ***PCCI Holdings, Inc. ("PCCI")***

On January 31, 2006, Kforce acquired PCCI, pursuant to an Agreement and Plan of Merger (the "Merger Agreement"). Under the terms of the Merger Agreement, Kforce acquired all of the outstanding stock of PCCI for \$63.3 million paid in cash at closing, subject to certain adjustments as provided for in the Merger Agreement. PCCI was a privately held company based in Treviso, Pennsylvania that, through its wholly-owned subsidiaries (primarily Pinkerton Computer Consultants, Inc.), provided technology staffing services to commercial clients and the Federal government technology services sector.

As a result of the acquisitions of RDI, Bradson and PCCI, Kforce significantly expanded its presence in providing staffing services to the Federal government.

As a general practice, Kforce does not compile separate results for former acquisitions because these operations have been fully integrated into Kforce in order to create operational efficiencies. Kforce anticipates continued growth which may be organic and/or through acquisition of other entities that enhance or expand our existing businesses. We believe that we are positioned to acquire and integrate other businesses that are strategically beneficial.

### ***Dispositions***

During 2008, Kforce divested itself of certain non-core businesses within our HLS segment to allow for better focus on the continuing core businesses.

#### ***Scientific***

On April 29, 2008 (the "Scientific Closing Date"), Kforce entered into an Asset Purchase Agreement pursuant to which it sold its Scientific business, to Aerotek Scientific, LLC (the "Scientific Buyer") for \$10.5 million in cash, including \$1.2 million held in escrow, plus additional earnout potential of up to an aggregate of \$1.5 million, measured over a 16-week period from the Scientific Closing Date. Kforce subsequently received \$1.5 million from the Scientific Buyer representing the maximum earnout, which has been reflected as a gain on sale of discontinued operations.



## *Nursing*

On June 29, 2008, Kforce entered into an Asset Purchase Agreement pursuant to which it sold its per-diem Nursing business, to Realtime Services, Inc. (the “Nursing Buyer”) for \$1.5 million in cash, which was paid at closing. Additionally, Kforce and the Nursing Buyer entered into a subordinated secured promissory note in the amount of \$0.5 million (the “Note”) that bears interest at a fixed rate of 6.0%. The interest and principal amount of the Note have been fully reserved. A balloon payment of \$0.5 million plus all accrued and unpaid interest is due on June 30, 2011, the maturity date of the Note. The Note is collateralized by a lien on all of the Nursing Buyer’s assets but is subordinated to the Nursing Buyer’s obligations to its lender.

## *Technology*

Our focus for Kforce’s technology activities is to improve efficiency and maintain a leveraged platform. Over the past three years, we have focused on an Enterprise Optimization Program (EOP) to upgrade our back office systems. During 2007 and 2006, we upgraded our human resources, time collection and billing systems. During 2008, we completed a data center refresh whereby virtually all of the hardware in our data center was replaced or upgraded with new hardware, which management believes will provide improved service to our corporate and field operations. We believe that we have successfully integrated our historical acquisitions’ technical processes into Kforce’s processes and have established a proven methodology for technical integration of future acquisitions. The integration of the RDI acquisition in the fourth quarter of 2008 is underway and is expected to be completed in 2009.

While we believe our technology systems are adequate to meet our current needs, there can be no assurance that they will not be subject to system outages or data loss caused by natural or man-made disasters. In addition, Kforce depends on certain third-party vendors whose reliability we cannot guarantee going forward. One or more of such events could negatively impact our ability to conduct our normal course of business.

## *Trade Names and Trademarks*

The Kforce and OnStaff trade names and the “Data Confidence” trademarks are important to our business. Each of these trade names and trademarks are registered with the United States Patent and Trademark Office.

## *Governmental Regulation*

Staffing firms are generally subject to one or more of the following types of government regulations: (i) regulation of the employer/employee relationship between a firm and its flexible staff, (ii) registration, licensing, recordkeeping and reporting requirements and (iii) substantive limitations on its operations. Staffing firms are the legal employers of their temporary workers; therefore, staffing firms are governed by laws regulating the employer/employee relationship such as wage and hour regulations, tax withholding and reporting, social security and other retirement, anti-discrimination, and workers’ compensation regulations.

## *Competition*

We operate in a highly competitive and fragmented specialty staffing services industry within each of our operating segments. Within temporary staffing and permanent placement services, the only significant barrier to entry is that significant working capital is needed since most employees are paid on a bi-weekly basis and customers may take 30 to 45 days to pay. A number of our competitors have substantially more resources than we possess. We face substantial competition from large national firms and local specialty staffing firms. The local firms are typically operator-owned, and each market generally has one or more significant competitors. We also face competition from national clerical and light industrial staffing firms, and national and regional accounting firms that also offer certain specialty staffing services.

In addition, many companies utilize Vendor Management Systems (“VMS”) for the purchase of staffing services. Generally, VMS are systems that allow companies to manage service providers. Data shows that larger, more sophisticated companies are more likely to add VMS. Approximately 56% of companies with at least 10,000 employees currently use VMS, up from 46% in 2007, and is expected to increase to 72% in 2010. Typically, VMS providers charge staffing firms 1% to 3% of total service revenues, which fees are usually recorded by staffing firms as a cost of services, thereby compressing margins. Kforce’s strategy has been to work with all VMS providers to enable us to provide Flexible Staffing Services to the broadest customer base possible in the sectors we serve.

In the United States, approximately 120 national competitors operate; and thousands of smaller organizations compete in varying degrees at local levels. Several similar companies – global, national, and local – compete in foreign markets. Our peer group, which is composed of some of our largest competitors, includes Robert Half International Inc., MPS Group, Inc., Resources Connection, Inc., AMN Healthcare Services, Ciber, Inc., and CDI Corporation.

Kforce believes that the availability and quality of personnel, level of service, effective monitoring of job performance, scope of geographic service, and price are the principal elements of competition in our industry. We believe that availability of quality personnel is especially important. In order to attract candidates, we place emphasis upon our ability to provide competitive compensation and benefits, quality and varied assignments, scheduling flexibility, and permanent placement opportunities. Because personnel pursue other employment opportunities on a regular basis, it is important that we respond to market conditions affecting these individuals. Additionally, in certain markets and in response to economic softening, we have experienced significant pricing pressure from some of our competitors. Although we believe we compete favorably with respect to these factors, we expect competition and pricing pressure to continue, and there can be no assurance that we will remain competitive.

### ***Insurance***

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

### ***Financial Information about Foreign and Domestic Operations***

Substantially all of Kforce's revenues are derived from domestic operations with customers located in the United States for the three years ended December 31, 2008. One of our subsidiaries, Kforce Global Solutions, Inc., provides outsourcing services internationally through two offices in Manila, Philippines. Our international operations comprised approximately 1% of net service revenues for the three years ended December 31, 2008.

### ***Operating Employees and Personnel***

As of December 31, 2008, Kforce employed 2,029 operating employees and had approximately 8,700 consultants on assignment ("Flexible Consultants") providing flexible staffing services and solutions to our clients. Flexible Consultants are primarily individuals who are employed directly by Kforce ("Flexible Employees") representing approximately 57% of Flexible Consultants; the balance are individuals who are employed by other entities ("Independent Contractors") that provide their employees to Kforce for assignment to its clients. As the employer, Kforce is responsible for the operating employees' and Flexible Employees' payrolls and the employer's share of applicable social security taxes (FICA), federal and state unemployment taxes, workers' compensation insurance, and other direct labor costs relating to our employees. We offer access to various health, life and disability insurance programs and other benefits for operating employees and Flexible Employees. We have no collective bargaining agreements covering any of our operating employees or Flexible Employees, have never experienced any material labor disruption, and are unaware of any current efforts or plans to organize any of our employees.

### ***Availability of Reports and Other Information***

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

### **Item 1A. Risk Factors**

#### **The gross domestic product in the U.S. has declined, indicating that the U.S. economy is in a recession.**

Global consumer confidence has recently eroded amidst concerns over declining asset values, potential inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, rising unemployment; and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations. These concerns have slowed economic growth and resulted in a recession in the U.S. Recent economic conditions have had a negative impact on our results of operations during the year ended December 31, 2008, due to reduced customer demand which is expected to continue for the foreseeable future. If these economic conditions continue or worsen, a number of negative effects on our business could result, including customers or potential customers reducing or delaying orders, the inability of customers to obtain credit, and the insolvency of one or more customers. Any of these effects could impact our ability to collect receivables, increase our need for cash, and ultimately decrease our net revenue and profitability.

**We are exposed to intangible asset risk; specifically, our goodwill and certain other intangibles recently became impaired, and may suffer further impairment in the future.**

As of the date of the filing of our Annual Report on Form 10-K for the 2008 fiscal year, we have determined that our goodwill and certain other intangibles were impaired and recorded a non-cash impairment charge of \$129.4 million, or \$115.2 million net of income taxes. In addition, a further significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in the need to perform an impairment analysis under SFAS 142 in future periods. If we were to conclude that a future write down of our goodwill is necessary, we would then record the appropriate charge, which could result in material charges that are adverse to our operating results and financial position. See Note 6 – “Goodwill and Other Intangible Assets” to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” for further details.

**Kforce may not be able to maintain sufficient cash flow or borrowing capacity to support operations.**

Kforce’s liquidity may be adversely impacted by covenants in our Credit Facility. On October 2, 2006, Kforce entered into a Second Amended and Restated Credit Agreement, with a syndicate led by Bank of America, N.A. (the “Credit Facility”). Under the Credit Facility, Kforce increased its indebtedness under its revolving credit facility. Kforce’s maximum borrowings under the Credit Facility are \$140 million, including a revolving loan tranche of up to \$125 million (the “Revolving Loan Amount”) and a \$15 million sub-limit for letters of credit. Borrowings under the Credit Facility are limited to 85% of eligible accounts receivable less certain minimum availability reserves. Under the Credit Facility, Kforce is required to maintain a minimum fixed charge coverage ratio in the event that it is unable to maintain minimum availability under the Credit Facility of \$15.0 million. As of December 31, 2008, Kforce had availability under the Credit Facility of \$53.7 million; therefore, the minimum fixed charge coverage ratio was not applicable. Kforce believes that it will be able to maintain the minimum availability requirement; however, in the event that Kforce is unable to do so, the goodwill and other intangible asset impairment charge would result in Kforce failing the fixed charge coverage ratio under its current definition, which would constitute an event of default. The Credit Facility expires during November 2011.

At no time during the existence of the Credit Facility have we ever failed to meet the minimum availability and fixed charge coverage ratio requirements. If we did not comply with these financial covenants, such a breach of the Credit Facility could materially adversely affect our liquidity and financial condition and could result, among other things, in the acceleration of all amounts borrowed under the Credit Facility. See the “Liquidity and Capital Resources” section of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**The financial markets have recently experienced significant turmoil which may negatively impact our liquidity and our ability to obtain financing, and may also cause a decrease in demand for our services.**

Our liquidity and our ability to obtain financing may be negatively impacted if one of our lenders under our Credit Facility, or another financial institution, suffers liquidity issues. In such an event, we may not be able to draw on all, or a substantial portion, of amounts available under our Credit Facility. Also, if we attempt to obtain future financing in addition to or as a replacement of our Credit Facility, the credit market turmoil could negatively impact our ability to obtain such financing or at comparable terms. In addition, the credit market turmoil has negatively impacted certain of our customers which could lead to a decrease in demand for our services.

**We face certain risks in collecting our trade accounts receivable.**

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

**Inflation may adversely affect our business operations in the future.**

Given the current macroeconomic environment, the U.S. government has and may attempt in the future to provide additional monetary stimulus, a fiscal stimulus, or both, to the U.S. economy. Such actions may lead to inflationary conditions in our cost base, particularly resulting in an increase in the compensation, commissions, and benefits components of our SG&A expenses. This may harm our margins and profitability if we are unable to increase prices or cut costs enough to offset the effects of inflation in our cost base.

**Significant legal actions could subject Kforce to substantial uninsured liabilities.**

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

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

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

**Kforce's success depends upon retaining the services of its management team and key operating employees.**

Kforce is highly dependent on its management team and expects that continued success will depend largely upon their efforts and abilities. The loss of the services of any key executive for any reason could have a material adverse effect upon Kforce. Success also depends upon our ability to identify, develop, and retain qualified operating employees; particularly management, client servicing, and candidate recruiting employees. Kforce expends significant resources in the recruiting and training of its employees, as the pool of available applicants for these positions is limited. The loss of some of our key operating employees could have a material adverse effect on our business, including our ability to establish and maintain client and candidate, professional, and technical relationships.

**Kforce depends on the proper functioning of its information systems.**

Kforce is dependent on the proper functioning of information systems in operating its business. Critical information systems are used in every aspect of Kforce's daily operations, most significantly, in the identification and matching of staffing resources to client assignments and in the customer billing and consultant payment functions. Kforce's information systems are protected through physical and software safeguards including the use of a third-party data processing center. However, Kforce and its systems are still vulnerable to natural disasters (we are headquartered in a hurricane-prone area), fire, terrorist acts, power loss, telecommunications failures, physical or software break-ins, computer viruses, and similar events. If our critical information systems fail or are otherwise unavailable, we would have to accomplish these functions manually, which could temporarily impact our ability to identify business opportunities quickly, to maintain billing and payroll records reliably, or to bill for services efficiently. In addition, we depend on third-party vendors for certain functions whose future performance and reliability we cannot warrant.

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

Kforce is required to pay a number of federal, state, and local payroll and related costs, including unemployment taxes, workers' compensation and insurance premiums and claims, FICA, and Medicare, among others, for our employees. Significant increases in the effective rates of any payroll-related costs would likely have a material adverse effect on Kforce. Costs could also increase as a result of health care reforms or the possible imposition of additional requirements and restrictions related to the placement of personnel. Recent federal and state legislative proposals have included provisions extending health insurance benefits to personnel who currently do not receive such benefits. We may not be able to increase the fees charged to our clients in a timely manner and in a sufficient amount to cover increased costs if any such proposals are adopted.

**Kforce faces significant employment liability risk.**

Kforce employs and places people in the workplaces of other businesses. Many of these employees have access to client information systems and confidential information. An inherent risk of such activity includes possible claims of errors and omissions; intentional misconduct; misuse or misappropriation of client intellectual property, proprietary information, funds, or other property; discrimination and harassment; employment of illegal aliens; criminal activity; torts; or other claims. Such claims may result in negative publicity, injunctive relief, payment by Kforce of monetary damages or fines, or other material adverse effects on our

business. Moreover, we could be held responsible for the actions at a workplace of persons not under our immediate control. To reduce our exposure, we maintain insurance coverage for professional malpractice liability, fidelity, employment practices liability, and general liability in sufficient amounts and with deductibles that we believe are appropriate for our operations. Our insurance coverage, however, may not cover all claims against us or continue to be available to us at a reasonable cost. In addition, we face various employment-related risks not covered by insurance, such as wage and hour laws and employment tax responsibility.

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

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

Part of our business entails employing individuals on a temporary basis and placing such individuals in clients' workplaces. Increased government regulation of the workplace or of the employer-employee relationship could have a material adverse effect on Kforce.

**If Kforce becomes subject to material liabilities under our self-insured programs, our financial results may be adversely affected.**

Kforce provides workers' compensation coverage through a program that is partially self-insured. In addition, we provide medical coverage to our employees through a partially self-insured program. If we become subject to substantial uninsured workers' compensation or medical coverage liabilities, our financial results may be adversely affected.

**Adverse results in tax audits could result in significant cash expenditures or exposure to unforeseen liabilities.**

Kforce is subject to periodic federal, state, and local tax audits for various tax years. Although Kforce attempts to comply with all taxing authority regulations, adverse findings or assessments made by the taxing authorities as the result of an audit could have a material adverse effect on Kforce.

**Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors and fraud, or in making all material information known in a timely manner to management.**

Our management, including our CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Kforce have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**The addition of offices and entry into new geographic markets may not occur on a timely basis or achieve anticipated financial results.**

Kforce's growth depends in part on our ability to enter new vertical or geographic markets successfully. This expansion is dependent on a number of factors, including our ability to:

- develop, recruit, and maintain a base of qualified professionals within a new geographic market;
- initiate, develop, and sustain corporate client relationships in each new vertical or geographic market;
- attract, hire, integrate, and retain qualified sales and sales support employees; and
- accurately assess the demand in a new market.

The addition of new offices and entry into new vertical or geographic markets typically results in increases in operating expenses, primarily due to increased employee headcount. Expenses are incurred in advance of forecasted revenue, and there is typically a delay before our new employees reach full productivity. Additionally, demand for our services in new markets that we enter might also be less than we anticipate. If we are unable to enter new vertical or geographic markets in a cost-effective manner or if demand for our services in new markets does not meet or exceed our forecasts, our business, operating results and financial condition could be negatively impacted. Historically, we have closed and consolidated offices to improve efficiency, and further closures or consolidation may occur depending on market and competitive conditions.

**Our business is dependent upon maintaining our reputation, our relationships, and our performance.**

The reputation and relationships that we have established and currently maintain with our customers are important to maintaining existing business and identifying new business. If our reputation or relationships were damaged, it could have a material adverse effect on our operations. In addition, if our performance does not meet expectations, our revenue and operating results could be materially harmed.

**We rely on short-term contracts with most of our clients.**

Because long-term contracts are not a significant part of our business, other than in our GS segment, future results cannot be reliably predicted by considering past trends or extrapolating past results. Further, our reliance on short-term contracts exerts continued pressure on us when we try to renew contracts with existing clients who may seek better terms upon renewal.

**Our “offshore” outsourcing solutions are limited.**

Many staffing customers are now seeking an offshore solution to support their technology and business process function and, as a result, a significant amount of technology and financial staffing may be replaced by offshore resources. Prior to January 31, 2006, we did not provide an offshore program. Following the acquisition of PCCI on January 31, 2006, we now provide a limited technology staffing solution through two offices in the Philippines to certain clients whose contracts were acquired in conjunction with the acquisition of PCCI. There can be no assurance that we will be able to compete successfully against other offshore solution providers or that we will not lose significant market share and revenue.

**We do not provide a Vendor Management System (“VMS”) solution.**

Many staffing customers are seeking to consolidate their use of staffing services through the use of a VMS solution. Kforce provides consultants to these clients through other staffing companies who utilize a VMS solution, but we do not currently provide this service directly to our clients. There can be no assurance that we can continue to effectively compete with those companies that provide a VMS solution. If we must provide a VMS solution, we could incur significant costs.

**Kforce’s current market share may decrease as a result of limited barriers to entry for new competitors and discontinuation of clients outsourcing their staffing needs.**

Kforce faces significant competition in the markets we serve, and there are limited barriers to entry for new competitors. The competition among staffing services firms is intense. Kforce competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, temporary personnel agencies, search firms, and other providers of staffing services. A number of our competitors possess substantially greater resources than we do. From time to time, we experience significant pressure from our clients to reduce price levels. During these periods, we may face increased competitive pricing pressures and may not be able to recruit the personnel necessary to fulfill our clients’ needs. We also face the risk that certain of our current and prospective clients will decide to provide similar services internally. There can be no assurance that we will continue to successfully compete.

**Competition for acquisition opportunities may restrict Kforce’s future growth by limiting our ability to make acquisitions at reasonable valuations.**

Kforce’s has increased its market share and presence in the staffing industry through strategic acquisitions of companies that have complemented or enhanced its business. We have historically faced competition for acquisitions. In the future, this could limit our ability to grow through acquisitions or could raise the prices of acquisitions and make them less accretive or possibly non-accretive to us. In addition, Kforce may be limited by its ability to obtain financing to consummate desirable acquisitions.

**Kforce may face significant risk arising from acquisitions.**

Kforce may face difficulties integrating acquisitions into existing operations and acquisitions may be unsuccessful, involve significant cash expenditures, or expose Kforce to unforeseen liabilities.

Kforce continually evaluates opportunities to acquire staffing companies that complement or enhance our business and frequently has preliminary acquisition discussions with such companies.

These acquisitions involve numerous risks, including:

- potential loss of key employees or clients of acquired companies;
- difficulties integrating acquired personnel and distinct cultures into a single business;
- diversion of management attention from existing operations; and
- assumption of liabilities and exposure to unforeseen liabilities of acquired companies.

These acquisitions may also involve significant cash expenditures, debt incurrence, integration expenses, and exposure to unforeseen liabilities that could have a material adverse effect on our financial condition, results of operations, and cash flows. Any acquisition may ultimately have a negative impact on our business and financial condition.

**Decreases in patient occupancy at healthcare clients' facilities may adversely affect the profitability of Kforce's business.**

Demand for temporary healthcare staffing services is significantly affected by the general level of patient occupancy at healthcare clients' facilities. When a hospital's occupancy increases, temporary employees are often added before full-time employees are hired. As occupancy decreases, clients may reduce their use of temporary employees before undertaking layoffs of their regular employees. Kforce may also experience more competitive pricing pressure during periods of occupancy downturn. This reduction in occupancy could adversely affect the demand for services and Kforce's profitability.

**Future changes in reimbursement trends could hamper our clients' ability to pay Kforce.**

Many of Kforce's healthcare clients are reimbursed under the federal Medicare program and state Medicaid programs for the services they provide. In recent years, federal and state governments have made significant changes in these programs that have reduced government rates. In addition, insurance companies and managed-care organizations seek to control costs by requiring that healthcare providers, such as hospitals, discount their services in exchange for exclusive or preferred participation in their benefit plans. Future federal and state legislation or evolving commercial reimbursement trends may further reduce, or change conditions for, our clients' reimbursement. Limitations on reimbursement could reduce our clients' cash flow, hampering their ability to pay us. This situation could have a significant impact on our cash flow.

**Provisions in Kforce's articles and bylaws and under Florida law may have certain anti-takeover effects.**

Kforce's articles of incorporation and bylaws and Florida law contain provisions that may have the effect of inhibiting a non-negotiated merger or other business combination. In particular, our articles of incorporation provide for a staggered board of directors and permit the removal of directors only for cause. Additionally, management may issue up to 15 million shares of preferred stock, and fix the rights and preferences thereof, without a further vote of the shareholders. In addition, certain of our officers and managers have employment agreements containing certain provisions that call for substantial payments to be made to such employees in certain circumstances upon a change in control. Certain of these provisions may discourage a future acquisition of Kforce, including an acquisition in which shareholders might otherwise receive a premium for their shares. As a result, shareholders who might desire to participate in such a transaction may not have the opportunity to do so. Moreover, the existence of these provisions may have a depressive effect on the market price of our common stock.

**Kforce's stock price may be volatile.**

Kforce's common stock is traded on The NASDAQ Global Select Market under the symbol "KFRC." The market price of our stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including our operating results, changes in general conditions in the economy, the financial markets, the employment services industry, or other developments affecting us, our clients, or our competitors; some of which may be unrelated to our performance.

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

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

## **RISKS RELATED TO OUR GOVERNMENT BUSINESSES**

In 2006, Kforce acquired PCCI and Bradson, which were both merged during 2007 into Kforce Government Solutions (“KGS”). In 2008, Kforce acquired RDI, which will be merged into KGS during 2009. KGS is substantially dedicated to contracting with and serving U.S. federal government agencies (the “Federal Agency Business”). In addition, Kforce, supplies services to the federal government, primarily as a staffing services provider to federal prime contractors. Federal contractors, including KGS and Kforce face a number of risks, including the following:

### **Our failure to comply with complex federal procurement laws and regulations could cause us to lose business, incur additional costs, and subject us to a variety of penalties.**

We must comply with complex laws and regulations relating to the formation, administration, and performance of federal government contracts. These laws and regulations create compliance risk and affect how we do business with our federal agency clients, and may impose added costs on our business.

If a government review or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to our reputation, suspension of payments, fines, and suspension or debarment from doing business with federal government agencies. The government may in the future reform its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, that could be costly to satisfy or that could impair our ability to obtain new contracts. A failure to comply with applicable laws and regulations could result in contract termination, price or fee reductions, or suspension or debarment from contracting with the federal government, each of which could lead to a material reduction in our revenues, cash flows and operating results.

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

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

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

If we were suspended or debarred from contracting with the federal government generally or with any specific agency, if our reputation or relationships with government agencies were impaired, or if the government otherwise were to cease doing business with us or were to significantly decrease the amount of business it does with us, our revenue, cash flows and operating results would be materially adversely affected.

### **Our Federal Agency Business is dependent upon maintaining our reputation, our relationships and our performance.**

The reputation and relationships that we have established and currently maintain with government personnel and agencies are important to maintaining existing business and identifying new business. If our reputation or relationships were damaged, it could have a material adverse effect. In addition, if our performance does not meet agency expectations, our revenue and operating results could be materially harmed.

### **Competition is intense in the Federal Agency Business.**

There is often intense competition to win federal agency contracts. If we are unable to successfully compete for new business or win competitions to maintain existing business, our revenue growth and margins may decline. Many of our competitors are larger and have greater resources than we do, larger client bases, and greater brand recognition. Our larger competitors also may be able to provide clients with different or greater capabilities or benefits than we can provide.

**Loss of our General Services Administration (“GSA”) schedule contracts or other contracting vehicles could impair our ability to win new business.**

GSA schedule contracts constitute a significant percentage of revenue from our federal agency clients. If we were to lose one or more of these contracts or other contracting vehicles, we could lose revenue and our operating results could be adversely affected. These contracts typically have an initial term with multiple options that may be exercised by our government agency clients to extend the contract for successive periods of one or more years. We can provide no assurance that our clients will exercise these options.

**Our failure to obtain and maintain necessary security clearances may limit our ability to perform classified work for government clients, which could cause us to lose business.**

Some government contracts require us to maintain facility security clearances and require some of our employees to maintain individual security clearances. If our employees lose or are unable to timely obtain security clearances, or we lose a facility clearance, a government agency client may terminate the contract or decide not to renew it upon its expiration.

**Our employees may engage in misconduct or other improper activities, which could harm our business.**

Like all government contractors, we are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by our employees could include intentional failures to comply with federal government procurement regulations, engaging in unauthorized activities, seeking reimbursement for improper expenses, or falsifying time records. Employee misconduct could also involve the improper use of our clients’ sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation. It is not always possible to deter employee misconduct, and precautions to prevent and detect this activity may not be effective in controlling such risks or losses, which could adversely affect our business.

**Security breaches in sensitive government information systems could result in loss of our clients and cause negative publicity.**

Many of the systems we develop, install, and maintain involve managing and protecting information used in intelligence, national security, and other sensitive or classified government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive or classified systems for federal government clients. We could incur losses from such a security breach that could exceed the policy limits under our insurance. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of our systems could materially reduce our revenue.

**Changes in the spending policies or budget priorities of the federal government could cause us to lose revenue.**

Changes in federal government fiscal or spending policies could adversely affect our government agency business.

**The failure by Congress to approve budgets on a timely basis for the federal agencies we support could delay or reduce spending and cause us to lose revenue.**

On an annual basis, Congress must approve budgets that govern spending by each of the federal agencies we support. When Congress is unable to agree on budget priorities and is unable to pass the annual budget on a timely basis, Congress typically enacts a continuing resolution. A continuing resolution allows government agencies to operate at spending levels approved in the previous budget cycle. When government agencies must operate under a continuing resolution, it may delay funding we expect to receive from clients on work we are already performing and will likely result in any new initiatives being delayed, and potentially cancelled.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

We lease our corporate headquarters in Tampa, Florida, which is approximately 128,000 square feet of space, under a 15-year lease arrangement that is up for renewal in September 2016. Leases for our field offices, which are located throughout the U.S., range from three to five-year terms although there are a few month-to-month arrangements and one 10-year lease term. We also lease approximately 21,000 square feet of combined space in two offices in Manila, Philippines.

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

**Item 3. Legal Proceedings**

In the ordinary course of business, we are, from time to time, threatened with litigation or named as a defendant in various lawsuits and administrative proceedings, including workers' compensation claims, discrimination claims, restrictive covenant disputes, service-related disputes and other claims. We maintain liability insurance in such amounts and with such coverage and deductibles as management believes are reasonable. The principal risks that we insure against are workers' compensation, personal injury, property damage, professional malpractice, errors and omissions, employment practices liability and fidelity losses.

The state of California is examining the unemployment tax rates of two Kforce subsidiaries for the years 2003 through 2006. On February 17, 2009, Kforce provided documents and testimony in response to investigative subpoenas served by the California Employment Development Department ("EDD"). EDD has not indicated what action, if any, it intends to take as a result of its investigation. Revisions of the rates during the period under examination could lead to assessments, if any, of up to \$2.75 million. Kforce believes that it has meritorious defenses to any potential assessments and if assessments are levied, Kforce intends to vigorously contest same through applicable administrative and/or judicial processes. At this stage, it is not possible to predict the outcome from the investigation, or the amount of any assessment, and accordingly, no amounts relating to same have been provided for in the accompanying consolidated financial statements.

We are not aware of any pending legal proceedings that are likely to have a material adverse impact on Kforce.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2008.

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

Our common stock trades on the NASDAQ Global Select Market under the 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, |
| <b>2008</b> |                    |          |               |              |
| High        | \$ 9.72            | \$ 9.63  | \$ 11.55      | \$ 10.49     |
| Low         | \$ 7.52            | \$ 7.95  | \$ 7.36       | \$ 5.16      |
| <b>2007</b> |                    |          |               |              |
| High        | \$ 14.71           | \$16.50  | \$ 17.00      | \$ 13.85     |
| Low         | \$ 12.08           | \$13.14  | \$ 12.32      | \$ 9.17      |

On March 10, 2009, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$5.80 per share.

*Holder of Common Stock*

On March 10, 2009, there were approximately 228 holders of record.

*Dividends*

Since our initial public offering in 1995, Kforce has not paid any cash dividends on its common stock and has no current intention to do so. Kforce is not restricted under its currently existing Credit Facility from paying dividends.

*Securities Authorized for Issuance under Equity Compensation Plans*

The following table provides information about our common stock that may be issued under all of our existing equity compensation plans as of December 31, 2008:

| <u>Plan Category</u>                               | <b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b><br>(a) | <b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b><br>(b) (1) | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) (2)</b> |
|--|---|---|--|
| Equity compensation plans approved by shareholders | 4,807,076   | \$ 10.42  | 4,770,999  |

- (1) The weighted-average exercise price excludes outstanding performance accelerated restricted stock (“PARS”) and restricted stock (“RS”) as there is no exercise price associated with these equity awards.
- (2) The following sets forth the number of shares of common stock and the name of the plan for which shares of common stock remain available for future issuance under our equity compensation plans (excluding securities to be issued upon exercise of outstanding options, warrants, rights and restricted stock awards included in column (a)): 4,159,125 shares of common stock under the Kforce Inc. 1999 Employee Stock Purchase Plan and 611,874 shares of common stock under the Kforce Inc. 2006 Stock Incentive Plan.

*Purchases of Equity Securities by the Issuer*

The following table presents information with respect to our repurchases of Kforce common stock during the three months ended December 31, 2008.

| <u>Period</u>                         | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b> |
|---------------------------------------|---|-------------------------------------|---|---|
| October 1, 2008 to October 31, 2008   | 1,082,000                               | \$ 7.58                             | 1,082,000   | \$ 28,568,193   |
| November 1, 2008 to November 30, 2008 | 225,415                                 | 6.92                                | 225,415   | 75,000,000  |
| December 1, 2008 to December 31, 2008 | 25,000                                  | 6.82                                | 25,000  | 74,829,500  |
| Total                                 | <u>1,332,415</u>                        | \$ 7.46                             | <u>1,332,415</u>  | \$ 74,829,500   |

- (1) During November 2008, our Board of Directors increased its authorization for common stock repurchases to \$75.0 million.

See the “Liquidity and Capital Resources” section of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations for more detail.

## Item 6. Selected Financial Data

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with the information within “Item 8. Financial Statements and Supplementary Data.”

|   | Years Ended December 31,                        |           |           |           |           |
|---|---|-----------|-----------|-----------|-----------|
|   | 2008 (1)  | 2007      | 2006      | 2005      | 2004 (2)  |
|   | <i>(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)</i> |           |           |           |           |
| Net service revenues  | \$997,017                                       | \$972,781 | \$868,001 | \$724,108 | \$586,519 |
| Gross profit  | 344,651   | 352,023   | 304,749   | 237,610   | 183,607   |
| Selling, general and administrative expenses                  | 415,884   | 272,335   | 241,503   | 196,400   | 169,625   |
| Depreciation and amortization (3)                             | 13,824  | 14,487    | 11,551    | 8,283     | 5,221     |
| Other expense, net (4)  | 2,136   | 4,422     | 3,701     | 1,127     | 1,016     |
| (Loss) Income from continuing operations, before income taxes | (87,193)  | 60,779    | 47,994    | 31,800    | 7,745     |
| Provision (benefit) for income taxes                          | 1,928   | 23,856    | 18,550    | 12,701    | (9,138)   |
| (Loss) Income from continuing operations                      | (89,121)  | 36,923    | 29,444    | 19,099    | 16,883    |
| Income from discontinued operations, net of income taxes      | 5,013   | 3,444     | 3,075     | 3,222     | 8,128     |
| Net (loss) income   | \$(84,108)                                      | \$ 40,367 | \$ 32,519 | \$ 22,321 | \$ 25,011 |
| (Loss) earnings per share – basic, continuing operations      | \$ (2.26)                                       | \$ 0.90   | \$ 0.73   | \$ 0.50   | \$ 0.49   |
| (Loss) earnings per share – diluted, continuing operations    | \$ (2.26)                                       | \$ 0.87   | \$ 0.70   | \$ 0.47   | \$ 0.47   |
| (Loss) earnings per share – basic                             | \$ (2.13)                                       | \$ 0.98   | \$ 0.81   | \$ 0.58   | \$ 0.73   |
| (Loss) earnings per share – diluted                           | \$ (2.13)                                       | \$ 0.95   | \$ 0.77   | \$ 0.55   | \$ 0.69   |
| Weighted average shares outstanding – basic (5)               | 39,471  | 41,308    | 40,189    | 38,527    | 34,125    |
| Weighted average shares outstanding – diluted (5)             | 39,471  | 42,294    | 42,012    | 40,616    | 36,091    |

|  | As of December 31,    |           |           |           |           |
|--|-----------------------|-----------|-----------|-----------|-----------|
|  | 2008 (1)              | 2007      | 2006      | 2005      | 2004      |
|  | <i>(IN THOUSANDS)</i> |           |           |           |           |
| Working capital                                    | \$ 60,302             | \$ 95,348 | \$ 64,425 | \$ 92,539 | \$ 24,830 |
| Total assets                                       | \$350,815             | \$476,136 | \$442,618 | \$324,746 | \$273,195 |
| Total outstanding borrowings – credit facility (4) | \$ 38,022             | \$ 50,330 | \$ 86,435 | \$ 35,000 | \$ 34,100 |
| Total long-term liabilities                        | \$ 59,528             | \$ 78,102 | \$ 94,664 | \$ 51,024 | \$ 13,263 |
| Stockholders’ equity                               | \$205,843             | \$312,468 | \$261,925 | \$210,702 | \$170,769 |

Acquisitions were made in our fiscal years ended December 31, 2008, 2006, 2005 and 2004. These acquisitions were included in our Consolidated Financial Statements from the respective acquisition date. See Note 7 – “Acquisitions” to the Consolidated Financial Statements for more detail on acquisitions made in 2008 and 2006.

During the three months ended June 30, 2008, Kforce sold its Scientific and per-diem Nursing business and completed efforts to wind down the remaining operations of its non per-diem Nursing business. As a result, the financial results of Scientific and Nursing have been presented as discontinued operations for each year presented in the table above. See Note 2 – “Discontinued Operations” to the Consolidated Financial Statements for more detail.

- (1) Kforce recognized a goodwill and intangible asset impairment charge of \$129.4 million during 2008. The tax benefit associated with this impairment charge was \$14.2 million, resulting in an after-tax impairment charge of \$115.2 million.
- (2) Kforce recognized an income tax benefit in 2004 primarily as a result of a \$19.2 million reversal of a valuation allowance.
- (3) Reflects an increase in amortization of intangible assets recorded in conjunction with the acquisitions of certain businesses during 2006, 2005 and 2004 as well as increases in capital lease assets, other capital expenditures and capitalized software.
- (4) Other expense, net, which primarily includes interest expense, increased significantly from 2005 to 2006 primarily as a result of an increase in outstanding borrowings related to the acquisitions of PCCI and Bradson during 2006.
- (5) Includes approximately 2.3 million and 5.7 million shares issued during 2005 and 2004 as consideration for acquisitions made during those periods. Weighted average shares outstanding for 2008 include the effect of 4.4 million shares repurchased in the open market.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Kforce Inc., our operations and our present business environment. MD&A is provided as a supplement to - and should be read in conjunction with - our Consolidated Financial Statements and the accompanying notes thereto contained in "Item 8. Financial Statements and Supplementary Data" of this report as well as "Item 1. Business" of this report for an overview of our operations and business environment. This overview summarizes the MD&A, which includes the following sections:

- *Executive Summary* – an executive summary of our 2008 results.
- *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 our consolidated financial statements. In order to assist the reader in understanding our business as a whole, certain metrics are presented for each of our four 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.

During 2008, Kforce sold its Scientific and per-diem Nursing businesses. See Note 2 – "Discontinued Operations" to the Consolidated Financial Statements for a more detailed discussion. The results presented in the accompanying consolidated statements of operations and comprehensive income (loss) for the three years ended December 31, 2008 include activity relating to the Scientific and Nursing businesses as discontinued operations. For comparison purposes, prior period financial information was recast. Except as specifically noted, our discussions below exclude any activity related to the Scientific and Nursing businesses, 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 important 2008 highlights, which should be considered in the context of the additional discussions herein and in conjunction with the Financial Statements and notes thereto. We believe such highlights are as follows:

- Total net service revenue improved 2.5% to \$997.0 million in 2008 from \$972.8 million in 2007.
- Flex revenue improved 3.8% to \$931.0 million in 2008 from \$897.0 million in 2007.
- Search revenue decreased 12.9% to \$66.0 million in 2008 from \$75.7 million in 2007.
- Gross profit margin decreased 160 basis points to 34.6% in 2008 from 36.2% in 2007.
- Net loss for 2008 of \$84.1 million, which represents a decline of \$124.5 million over 2007 net income of \$40.4 million. The results for 2008 include an after-tax goodwill and intangible asset impairment charge of \$115.2 million.
- Kforce acquired RDI effective November 30, 2008 for approximately \$38.9 million and repurchased 4.5 million shares of common stock at a total cost of \$37.9 million.
- The total amount outstanding under the Credit Facility decreased \$12.3 million, or 24.5%, to \$38.0 million as of December 31, 2008 from \$50.3 million in 2007.
- Kforce disposed of its Scientific and per-diem Nursing businesses for \$12.0 million and \$1.5 million, respectively. Kforce management believes that the disposition of Scientific and per-diem Nursing, which was based on management's review of our core businesses, will allow us to focus on the growth opportunities that are believed to exist in our continuing core businesses.
- Cash provided by operating activities was \$89.3 million for 2008, which represents an increase of \$40.6 million, or 83.2%, over the comparable period in 2007.

## 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, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our 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, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. 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  |
|---|---|---|
| <p><b>Allowance for Doubtful Accounts and Fallouts</b></p> <p>See Note 1, <i>Summary of Significant Accounting Policies</i>, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for a complete discussion of our policies related to determining our allowance for doubtful accounts and fallouts.</p> | <p>Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, changes in economic conditions, a specific analysis of material accounts receivable balances that are past due, and concentration of accounts receivable among clients, in establishing its allowance for doubtful accounts.</p> <p>In addition, management considered significant developments during 2008 such as the rise in sudden business failures resulting primarily from the turmoil in the financial and credit markets, a U.S. recession and its potential impact on the expected delinquency rate of our portfolio, as well as Kforce’s exposure to customers in high-risk sectors such as the financial services industry.</p> <p>Kforce estimates its allowance for Search fallouts based on our extensive historical experience with the actual occurrence of fallouts.</p> | <p>We have not made any material changes in the accounting methodology used to establish our allowance for doubtful accounts and fallouts. As of December 31, 2008 and 2007, the allowance was 4.6% and 1.8% as a percentage of gross accounts receivable, respectively.</p> <p>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. 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 for at December 31, 2008, would have impacted our net loss by approximately \$0.6 million.</p> <p>Although we do not believe that there is a reasonable likelihood that there will be a material change in the actual occurrence of fallouts, a 10% difference in our actual fallout experience reserved for at December 31, 2008, would have impacted our net loss for 2008 by less than \$0.1 million.</p> |

| Description  | Judgments and Uncertainties   | Effect if Actual Results Differ From Assumptions  |
|--|---|---|
| <p><b>Goodwill Impairment</b></p> <p>We evaluate goodwill for impairment annually and whenever events and circumstances indicate the carrying value of the goodwill may not be recoverable. See Note 6, <i>Goodwill and Other Intangible Assets</i>, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for a complete discussion of the valuation methodology employed.</p> <p>We completed our annual assessment of goodwill impairment as of December 31, 2008 using the methodology described therein and recognized an impairment charge of \$128.4 million (\$116.7 million in our Tech reporting unit and \$11.7 million in our FA reporting unit).</p> <p>The carrying value of goodwill as of December 31, 2008 was \$140.1 million.</p> | <p>We determine the fair value of our reporting units using widely accepted valuation techniques, including discounted cash flow and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions such as an appropriate rate to discount expected future cash flows and to apply judgment to estimate industry economic factors and the likelihood of achieving forecasted operating results.</p> <p>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.</p>                    | <p>We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years.</p> <p>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 test for impairment losses on goodwill and other intangible assets. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to additional impairment charges that could be material.</p> <p>Impairment was not indicated for our HLS and GS reporting units based on the results of the first step of the impairment analysis. The fair value for each of these reporting units exceeded their carrying values by 62.9% and 52.5%, respectively.</p>  |
| <p><b>Acquisitions – Purchase Price Allocations</b></p> <p>In accordance with accounting for business combinations, we allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill.</p> <p>We use all available information to estimate fair values and we adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date as we obtain more information regarding asset valuations and liabilities assumed.</p>  | <p>Our purchase price allocation methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities. Management estimates the fair value of assets and liabilities based upon quoted market prices, the carrying value of the acquired assets and widely accepted valuation techniques, including discounted cash flows and market multiple analyses.</p> <p>Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.</p> | <p>During the last three fiscal years, we have completed three acquisitions. See Note 7, <i>Acquisitions</i>, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for the purchase price allocation calculations as well as a description of the methods used to value the identifiable intangible assets.</p> <p>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 complete the purchase price allocation and estimate the fair value of acquired assets and 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.</p> <p>The preliminary purchase price allocation for our acquisition of RDI was based upon the average amounts that we assigned to intangible assets in the acquisition of Bradson and PCCI in 2006, after taking into account the net tangible assets acquired. This determination was made based upon the similarity in nature of the acquisitions and the similarity of the acquired identifiable intangible assets.</p> |

| Description  | Judgments and Uncertainties  | Effect if Actual Results Differ From Assumptions  |
|--|--|---|
| <b>Self-Insured Liabilities</b>  |  |   |
| <p>We are self-insured for certain losses related to health insurance and workers' compensation claims. However, we obtain third-party insurance coverage to limit our exposure to these claims.</p>   | <p>Our self-insured liabilities contain uncertainties because management is required to make assumptions and to apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date.</p>  | <p>We have not made any material changes in the accounting methodology used to establish our self-insured liabilities during the past three fiscal years.</p>   |
| <p>When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, internal claims management activities, demographic factors and severity factors. Periodically, management reviews its assumptions to determine the adequacy of our self-insured liabilities.</p>   |  | <p>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.</p>  |
| <p>Our liabilities for health insurance and workers' compensation claims as of December 31, 2008 were \$2.4 million and \$3.0 million, respectively.</p>   |  | <p>A 10% change in our self-insured liabilities related to health insurance and workers' compensation as of December 31, 2008 would have impacted our net loss by approximately \$0.5 million.</p>  |
| <b>Stock-Based Compensation</b>  |  |   |
| <p>We have stock-based compensation plans, which includes options, stock appreciation rights and nonvested share awards and an employee stock purchase plan. See Note 1, <i>Summary of Significant Accounting Policies</i>, Note 12, <i>Employee Benefit Plans</i>, and Note 13, <i>Stock Incentive Plans</i>, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for a complete discussion of our stock-based compensation programs.</p> | <p>Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, risk-free rates, future employee turnover rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the estimate of fair value.</p> | <p>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.</p> |
| <p>We determine the fair value of our stock option awards and stock appreciation rights ("SARS") at the date of grant using widely accepted option-pricing models such as the Black-Scholes model as well as a lattice model.</p>  | <p>Restricted stock and PARS require management to make assumptions regarding the likelihood of achieving company or personal performance goals.</p>   | <p>If actual results are not consistent with the assumptions used, the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based compensation.</p>   |
| <p>We determine the fair value of our restricted stock and performance accelerated restricted stock ("PARS") based upon the intrinsic value at the date of grant. We also utilize a lattice model to determine the derived service period of PARS.</p>   | <p>SARS and PARS also have certain acceleration provisions, which are difficult to estimate.</p>   | <p>A 10% change in our stock-based compensation expense would have impacted our 2008 net loss by approximately \$1.2 million.</p>   |
| <p>Management reviews its assumptions to determine the fair value of stock-based compensation awards.</p>  |  |   |

| Description   | Judgments and Uncertainties   | Effect if Actual Results Differ From Assumptions   |
|---|---|--|
| <b>Defined Benefit Pension Plan – U.S.</b>  |   |  |
| <p>We have a defined benefit pension plan that benefits certain named executive officers, the Supplemental Executive Retirement Plan (“SERP”). See Note 12, <i>Employee Benefit Plans</i>, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for a complete discussion of the terms of this plan.</p> | <p>When estimating the obligation for our pension and postretirement benefit plans, management is required to make certain assumptions and to apply judgment with respect to determining the discount rate and expected future compensation increases for the participants in the plan.</p> | <p>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.</p> <p>A 10% change in the discount rate used to measure the net periodic pension cost for the SERP during 2008 would have affected our 2008 net loss by approximately \$0.2 million.</p> |

### Accounting for Income Taxes

|   |   |  |
|---|---|--|
| <p>See Note 4, <i>Income Taxes</i>, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, 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, 2008.</p> | <p>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.</p> <p>Kforce is also required to exercise judgment with respect to the realization of our net deferred tax asset.</p> | <p>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.</p> <p>A 0.50% change in our effective income tax rate from continuing operations would have impacted our 2008 net loss by approximately \$0.4 million.</p> |
|---|---|--|

### NEW ACCOUNTING STANDARDS

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (“SFAS 141R”), which replaces SFAS No. 141. This statement retains the purchase method of accounting for acquisitions but establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired (including intangibles), the liabilities assumed and any non-controlling interests in the acquired entity. This standard also changes the recognition of assets acquired and liabilities assumed arising from contingencies, and requires the expensing of acquisition-related costs as incurred, among others. Subject to certain provisions, this statement will apply prospectively to business combinations occurring in our fiscal year beginning January 1, 2009.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. It also establishes presentation and disclosure requirements to facilitate comparisons between companies using different measurement attributes for similar types of assets and liabilities. The statement was effective for our fiscal year that began January 1, 2008. SFAS 159 did not have a material impact on our consolidated financial statements upon adoption.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement was effective for our fiscal year that began January 1, 2008. SFAS 157 did not have a material impact on our consolidated financial statements upon adoption.

In February 2008, the FASB issued FASB Staff Position (“FSP”) No. 157-2 (“FSP 157-2”). FSP 157-2 delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. In February 2008, the FASB also issued FSP No. 157-1 (“FSP 157-1”) that would exclude leasing transactions accounted for under SFAS No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements. We do not expect the SFAS 157 related guidance to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This pronouncement requires enhanced disclosures concerning a company’s treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of FSP 142-3, but do not expect the adoption to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“SFAS 162”). This statement identifies the sources of accounting principles and framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 was effective November 15, 2008. SFAS 162 did not have a material impact on our consolidated financial statements upon adoption.

In November 2008, the FASB ratified EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets* (“EITF 08-7”). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We expect EITF 08-7 will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and value of the intangible assets purchased after the effective date.

International Financial Reporting Standards (IFRS) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the U.S., which could, in the near term, provide domestic issuers with an alternative accounting method and ultimately could replace U.S. GAAP reporting requirements with IFRS reporting requirements. We are currently investigating the implications should we be required to adopt IFRS in the future.

## **RESULTS OF OPERATIONS**

Net service revenues for the years ended December 31, 2008 and 2007 were \$997.0 million and \$972.8 million, respectively, which represents an increase in 2008 of 2.5%. The growth in 2008 was fueled primarily by strong Flex revenue performance from our GS, HLS, and Tech segments, which experienced increases in Flex revenues of 23.4%, 19.8%, and 0.9%, respectively, over the comparable period in 2007. Management believes that the HLS and GS segments will be more stable during variable economic cycles, which is due primarily to their mix of revenue being almost entirely concentrated in Flex revenue and the overall nature of their operations. For the GS segment, this is a result of the growth of the federal agencies that are customers of Kforce, such as the Department of Defense and the Department of Homeland Security, and the increasing use by many of these agencies of outsourced labor in order to replace employees who are reaching the age of retirement. We do not currently anticipate any significant adverse impacts to our GS segment as a result of the change in Administration resulting from the recent election due to the areas of the government that our GS segment participates; however, we have recently experienced delays in the timing of project awards. Net service revenues for our GS segment for the years ended December 31, 2008 and 2007 were \$76.2 million and \$61.8 million, respectively, which represents an increase of 23.4%.

As we have progressed through 2008, there have been growing concerns about the U.S. macro-economic environment including the significant turmoil in the credit and financial markets, declining GDP growth, an increase in the unemployment rate for individuals with college degrees, and increasing jobless claims; as well as several significant sudden business failures. Coinciding with these events, Kforce experienced (i) significant reductions in Search revenue during the last two quarters of 2008, which experienced sequential percentage declines of 22.4% and 17.5%, respectively, (ii) a sequential decrease in Flex revenue of 3.1% in the fourth quarter of 2008 and (iii) declines in Flex gross profit margins within many of our segments. As a result, our gross profit margins decreased 160 basis points to 34.6% as compared to 36.2% for the year ended December 31, 2007. Although there can be no assurance that historical trends will continue, Search activity and Flex gross margins historically decrease heading into the troughs of an economic cycle, increase after economic conditions have shown sustained improvement, and are the strongest during the peak of an economic cycle. In addition, we believe that Flex demand generally increases before demand for Search activity increases.

The economic uncertainties in which we currently operate make it challenging for Kforce to predict the near-term future. A deep and prolonged U.S. recession would likely have a significant adverse impact on our clients and our business. We believe, however, that initiatives undertaken during the last several years, such as restructuring both our back office and field operations, and upgrading our corporate systems and technology, have increased our operating efficiencies, and have also enabled us to be more responsive to our clients. We believe our field operations model, which allows us to deliver our service offerings in a disciplined and consistent manner across all geographies and business lines, as well as our highly centralized back office operations, are competitive advantages and keys to our future growth and profitability.

In addition, during the most recent economic cycle, we were successful in reducing Kforce's dependency on Search revenue, significantly increased the annualized revenues of our GS segment, and divested itself of non-core businesses. We believe that our diversified portfolio of service offerings will be a key contributor to our long-term financial stability.

We expect 2009 to be an extremely difficult economic environment. As a result, we expect to see significant reductions in Search and Flex revenue, especially in our Tech and FA segments and gross profit compression across all segments. We also expect an increase in revenues in our GS segment in 2009 because (i) we expect a number of delayed outstanding project awards to favorably impact GS and (ii) our acquisition of RDI in late 2008 and (iii) we expect government contract work to continue to be robust despite the current economic downturn.

**Net Service Revenues.** The following table sets forth, as a percentage of net service revenues, certain items in our consolidated statements of operations for the years ended:

|   | December 31, |        |        |
|---|--------------|--------|--------|
|   | 2008         | 2007   | 2006   |
| <b>Revenue by Segment:</b>                                    |              |        |        |
| Tech  | 52.1%        | 53.3%  | 52.6%  |
| FA  | 21.2         | 24.0   | 28.7   |
| HLS   | 19.0         | 16.4   | 14.9   |
| GS  | 7.7          | 6.3    | 3.8    |
| Net service revenues  | 100.0%       | 100.0% | 100.0% |
| <b>Revenue by Time:</b>                                       |              |        |        |
| Flex  | 93.4%        | 92.2%  | 92.1%  |
| Search  | 6.6          | 7.8    | 7.9    |
| Net service revenues  | 100.0%       | 100.0% | 100.0% |
| Gross profit  | 34.6%        | 36.2%  | 35.1%  |
| Selling, general and administrative expenses                  | 41.7%        | 28.0%  | 27.8%  |
| (Loss) income from continuing operations, before income taxes | (8.7)%       | 6.2%   | 5.5%   |
| (Loss) income from continuing operations                      | (8.9)%       | 3.8%   | 3.4%   |
| Net (loss) income   | (8.4)%       | 4.1%   | 3.7%   |

The following table details net service revenues for Flex and Search revenue by segment and changes from the prior year.

| (in \$000's)  | 2008             | Increase<br>(Decrease) | 2007             | Increase<br>(Decrease) | 2006             |
|---------------|------------------|------------------------|------------------|------------------------|------------------|
| <b>Tech</b>   |                  |                        |                  |                        |                  |
| Flex          | \$493,282        | 0.9%                   | \$488,968        | 13.5%                  | \$430,731        |
| Search        | 26,585           | (10.8)%                | 29,820           | 16.3%                  | 25,638           |
| Total Tech    | <u>\$519,867</u> | 0.2%                   | <u>\$518,788</u> | 13.7%                  | <u>\$456,369</u> |
| <b>FA</b>     |                  |                        |                  |                        |                  |
| Flex          | \$174,039        | (8.3)%                 | \$189,824        | (9.1)%                 | \$208,815        |
| Search        | 37,220           | (14.0)%                | 43,301           | 6.4%                   | 40,688           |
| Total FA      | <u>\$211,259</u> | (9.4)%                 | <u>\$233,125</u> | (6.6)%                 | <u>\$249,503</u> |
| <b>HLS</b>    |                  |                        |                  |                        |                  |
| Flex          | \$187,486        | 19.8%                  | \$156,478        | 23.2%                  | \$126,992        |
| Search        | 2,180            | (17.0)%                | 2,626            | 16.2%                  | 2,260            |
| Total HLS     | <u>\$189,666</u> | 19.2%                  | <u>\$159,104</u> | 23.1%                  | <u>\$129,252</u> |
| <b>GS</b>     |                  |                        |                  |                        |                  |
| Flex          | \$ 76,225        | 23.4%                  | \$ 61,764        | 87.9%                  | \$ 32,877        |
| Search        | —                | —                      | —                | —                      | —                |
| Total GS      | <u>\$ 76,225</u> | 23.4%                  | <u>\$ 61,764</u> | 87.9%                  | <u>\$ 32,877</u> |
| Total Flex    | \$931,032        | 3.8%                   | \$897,034        | 12.2%                  | \$799,415        |
| Total Search  | 65,985           | (12.9)%                | 75,747           | 10.4%                  | 68,586           |
| Total Revenue | <u>\$997,017</u> | 2.5%                   | <u>\$972,781</u> | 12.1%                  | <u>\$868,001</u> |

While quarterly comparisons are not fully discussed herein, certain quarterly revenue trends are referred to in discussing the annual comparisons. This unaudited 2008 quarterly information is presented for this purpose only.

| <u>(in \$000's, except Billing Days)</u> | <u>Three Months Ended</u> |                     |                  |                  |
|--|---------------------------|---------------------|------------------|------------------|
|  | <u>December 31</u>        | <u>September 30</u> | <u>June 30</u>   | <u>March 31</u>  |
| Billing Days                             | 62                        | 64                  | 64               | 63               |
| Flex Revenue                             |                           |                     |                  |                  |
| Tech                                     | \$ 123,648                | \$ 125,019          | \$123,884        | \$120,731        |
| FA                                       | 39,192                    | 42,604              | 44,651           | 47,591           |
| HLS                                      | 44,642                    | 49,280              | 47,740           | 45,824           |
| GS                                       | 20,697                    | 18,528              | 18,907           | 18,093           |
| Total Flex                               | <u>\$ 228,179</u>         | <u>\$ 235,431</u>   | <u>\$235,182</u> | <u>\$232,239</u> |
| Search Revenue                           |                           |                     |                  |                  |
| Tech                                     | \$ 5,133                  | \$ 6,184            | \$ 7,899         | \$ 7,369         |
| FA                                       | 7,236                     | 8,578               | 11,416           | 9,991            |
| HLS                                      | 406                       | 725                 | 636              | 413              |
| Total Search                             | <u>\$ 12,775</u>          | <u>\$ 15,487</u>    | <u>\$ 19,951</u> | <u>\$ 17,773</u> |
| Total Revenue                            |                           |                     |                  |                  |
| Tech                                     | \$ 128,781                | \$ 131,203          | \$131,783        | \$128,100        |
| FA                                       | 46,428                    | 51,182              | 56,067           | 57,582           |
| HLS                                      | 45,048                    | 50,005              | 48,376           | 46,237           |
| GS                                       | 20,697                    | 18,528              | 18,907           | 18,093           |
| Total Revenue                            | <u>\$ 240,954</u>         | <u>\$ 250,918</u>   | <u>\$255,133</u> | <u>\$250,012</u> |

**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 expenses incurred by Kforce that are billable to the client.

Kforce experienced growth during 2008 and 2007 in Flex revenues in all segments with the exception of FA, which decreased 8.3% and 9.1%, respectively. The decrease in Flex revenues for FA was primarily due to the following items: (i) the conclusion of project-specific business with a few significant customers that had both high volume and high bill rates and (ii) a decline in mortgage-related client needs due to the decline in the mortgage lending market. This segment was the most significantly impacted by the current recession in the U.S., which is expected to continue to decline in 2009.

Flex revenues for our largest segment, Tech, have held up better than expected based on previous economic downturns, which we believe is primarily a result of our highly skilled people and our field operations model, which allows us to deliver our service offerings in a disciplined and consistent manner across all geographies and business lines. We also believe that unlike the late 1990s and early 2000s our customers generally have not over-hired during the most recent economic expansion. We also do not believe that an exaggerated technology bubble similar to that which developed prior to the last economic downturn developed prior to the current downturn. We anticipate a sequential decline in the first quarter of 2009 as a result of assignments ending, as is typical at year-end, as well as the current state of the economy.

Our HLS and GS segments demonstrated strong results in 2008 despite the macro-economic environment, which was expected given the nature of their operations. While we will be acutely aware of any legislative initiatives of the new administration in the future, we do not expect any legislation to significantly negatively impact 2009 results. The Clinical Research business within our HLS segment did see a decrease in activity as we progressed through the fourth quarter of 2008 reflecting the cost cutting initiatives of large pharmaceutical companies. However, we anticipate an increase in volume in 2009 as pharmaceutical companies are generally not canceling projects already in process and we believe there will be a continued focus on clinical trials.

The increase in Kforce's average bill rate per hour for the year ended December 31, 2008 of 3.5% over 2007 is primarily a result of a decline in Flex revenue in our FA segment, which generally has a lower average bill rate per hour than our other segments, and an increase in Flex revenue in our other segments. Continued economic growth and Kforce's focus on pricing and customer profitability contributed to an increase in the average bill rate per hour during 2007 of 9.2% over 2006.

As a result of the depressed economic environment, Kforce's average bill rate per hour sequentially declined 1.1% in the fourth quarter of 2008 as compared to the third quarter of 2008 and is expected to continue to encounter pressure in 2009.

The following table details total Flex hours for each segment and percentage changes over the prior period for the years ended December 31:

| (in 000's)  | 2008          | Increase<br>(Decrease) | 2007          | Increase<br>(Decrease) | 2006          |
|-------------|---------------|------------------------|---------------|------------------------|---------------|
| Tech        | 7,606         | 3.3%                   | 7,366         | 9.5%                   | 6,727         |
| FA          | 4,840         | (8.7)%                 | 5,304         | (12.9)%                | 6,088         |
| HLS         | 2,129         | 3.9%                   | 2,049         | 14.3%                  | 1,792         |
| GS          | 841           | 24.0%                  | 678           | 77.0%                  | 383           |
| Total hours | <u>15,416</u> | 0.1%                   | <u>15,397</u> | 2.7%                   | <u>14,990</u> |

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

| (in \$000's)            | 2008            | Increase<br>(Decrease) | 2007            | Increase<br>(Decrease) | 2006            |
|-------------------------|-----------------|------------------------|-----------------|------------------------|-----------------|
| Tech                    | \$ 2,536        | (23.4)%                | \$ 3,310        | 0.0%                   | \$ 3,310        |
| FA                      | 312             | (2.8)%                 | 321             | (51.1)%                | 656             |
| HLS                     | 20,695          | 17.5%                  | 17,615          | 22.3%                  | 14,399          |
| GS                      | 280             | (19.5)%                | 348             | (39.8)%                | 578             |
| Total billable expenses | <u>\$23,823</u> | 10.3%                  | <u>\$21,594</u> | 14.0%                  | <u>\$18,943</u> |

**Search Fees.** The increase or decrease in Search fees is primarily attributable to the increase or decrease in the number of placements as well as the average fee earned on each placement. Our GS segment does not make permanent placements.

As was previously mentioned, Search activity historically decreases heading into the troughs of an economic cycle, increases after economic conditions have shown sustained improvement, and is the strongest during the peak of an economic cycle. As we progressed through the second half of 2008, Kforce experienced significant sequential declines in Search fees, which was expected as the U.S. economic environment sharply declined. Sequential declines in the three months ended December 31, 2008 and September 30, 2008 were 22.4% and 17.5%, respectively, over the prior quarterly periods.

Over the last several years, Kforce has made a concerted effort to de-emphasize the contribution of Search fees to overall net services revenues, which is primarily a result of the highly volatile nature of the Search business as well as the costs that must be invested in establishing the workforce and the return that is achieved on these investments. As a result of this de-emphasis and the current economic environment, Kforce expects significant declines in Search fees in 2009.

Total placements for each segment were as follows for the years ended December 31:

|                  | 2008         | Increase<br>(Decrease) | 2007         | Increase<br>(Decrease) | 2006         |
|------------------|--------------|------------------------|--------------|------------------------|--------------|
| Tech             | 1,665        | (12.4)%                | 1,901        | 8.3%                   | 1,755        |
| FA               | 2,792        | (14.7)%                | 3,273        | 2.4%                   | 3,197        |
| HLS              | 144          | (7.1)%                 | 155          | 25.0%                  | 124          |
| Total placements | <u>4,601</u> | (13.7)%                | <u>5,329</u> | 5.0%                   | <u>5,076</u> |

The average fee per placement for each segment was as follows for the years ended December 31:

|                             | 2008            | Increase<br>(Decrease) | 2007            | Increase<br>(Decrease) | 2006            |
|-----------------------------|-----------------|------------------------|-----------------|------------------------|-----------------|
| Tech                        | \$15,972        | 1.8%                   | \$15,685        | 7.3%                   | \$14,613        |
| FA                          | 13,329          | 0.7%                   | 13,231          | 4.0%                   | 12,728          |
| HLS                         | 15,131          | (10.6)%                | 16,916          | (7.1)%                 | 18,218          |
| Total average placement fee | <u>\$14,341</u> | 0.9%                   | <u>\$14,214</u> | 5.2%                   | <u>\$13,512</u> |

**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 subcontract costs) from net Flex service revenue revenues. In addition, consistent with industry practices, gross profit dollars from Search fees are equal to revenues, because there are generally no direct costs associated with such revenues.

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

|                               | <u>2008</u> | <u>Increase<br/>(Decrease)</u> | <u>2007</u> | <u>Increase<br/>(Decrease)</u> | <u>2006</u> |
|-------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|
| Tech                          | 31.0%       | (5.2)%                         | 32.7%       | 3.2%                           | 31.7%       |
| FA                            | 45.2%       | (1.1)%                         | 45.7%       | 5.3%                           | 43.4%       |
| HLS                           | 31.5%       | (3.7)%                         | 32.7%       | 2.5%                           | 31.9%       |
| GS                            | 37.3%       | (3.9)%                         | 38.8%       | 21.3%                          | 32.0%       |
| Total gross profit percentage | 34.6%       | (4.4)%                         | 36.2%       | 3.1%                           | 35.1%       |

Changes in the amount of Search fees as a percentage of total revenue can significantly impact total gross profit percentage because Search revenue contributes 100% to gross profit, as was described previously. Given this dynamic, Kforce 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 the insight necessary 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 (“Flex Rate”) for Flex.

The decrease in Search gross profit from 2007 to 2008 was \$9.8 million, composed of a \$10.5 million decrease in volume and a \$0.7 million increase in rate. The increase in Search gross profit from 2006 to 2007 was \$7.2 million, composed of \$4.4 million increase in rate and \$2.8 million increase in volume.

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

|                                    | <u>2008</u> | <u>Increase<br/>(Decrease)</u> | <u>2007</u> | <u>Increase<br/>(Decrease)</u> | <u>2006</u> |
|------------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|
| Tech                               | 27.3%       | (4.5)%                         | 28.6%       | 3.2%                           | 27.7%       |
| FA                                 | 33.5%       | 0.6%                           | 33.3%       | 3.1%                           | 32.3%       |
| HLS                                | 30.7%       | (2.8)%                         | 31.6%       | 2.9%                           | 30.7%       |
| GS                                 | 37.3%       | (3.9)%                         | 38.8%       | 21.3%                          | 32.0%       |
| Total Flex gross profit percentage | 29.9%       | (2.9)%                         | 30.8%       | 4.4%                           | 29.5%       |

The increase in Flex gross profit from 2007 to 2008 was \$2.4 million, \$2.1 million of which resulted from an increase in the Flex Rate and \$0.3 million resulted from an increase in volume. The increase in Flex gross profit from 2006 to 2007 was \$40.1 million, \$32.8 million of which resulted from an increase in the Flex Rate and \$7.3 million resulted from an increase in volume driven by higher total hours.

The Flex gross profit percentage was negatively impacted during 2008, except for FA, by the deterioration in the economic environment and the compression that occurred in the spread between Kforce’s bill rates and pay rates, which is primarily due to the lag in Kforce’s ability to reduce pay rates as quickly as bill rates decline. As previously mentioned, our GS segment has demonstrated growth in net service revenues over the past two years. To achieve the growth in net service revenues, GS has increased the utilization of subcontracts, which negatively impacted the Flex gross profit percentage during 2008 even though this resulted in increased gross profit dollars. We expect continued pressure on our bill rates as we head into 2009 but will be actively managing, to the extent possible, our pay rates. Additionally, payroll taxes, particularly unemployment taxes, which are highest in the first quarter of the year because employees have not yet earned sufficient wages to exceed the basis on which taxes are payable, have risen in recent years and may continue to rise and negatively impact Flex gross profit.

**Selling, General and Administrative (“SG&A”) Expenses.** For the years ended December 31, 2008, 2007 and 2006, total commissions, compensation, payroll taxes, and benefit costs as a percentage of SG&A expenses represented 55.8% (81.1% excluding the goodwill and intangible asset impairment charge), 82.6% and 79.8%, respectively. Commissions and related payroll taxes and benefit costs are variable costs driven primarily by revenue and gross profit levels, and associate productivity. Therefore, as gross profit levels change, these costs 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 expenses along with an “other” caption, which includes bad debt expense, lease expense, professional fees, travel, telephone, computer expenses and certain other expenses, as an absolute amount and as a percentage of total net service revenues for the years ended December 31:

| (in \$000's)  | 2008             | % of Revenue | 2007             | % of Revenue | 2006             | % of Revenue |
|---|------------------|--------------|------------------|--------------|------------------|--------------|
| Compensation, commissions, payroll taxes and benefits costs | \$232,189        | 23.3%        | \$224,967        | 23.1%        | \$192,733        | 22.2%        |
| Other   | 54,286           | 5.4%         | 47,368           | 4.9%         | 48,770           | 5.6%         |
| Impairment charge   | 129,409          | 13.0%        | —                | —            | —                | —            |
| Total SG&A  | <u>\$415,884</u> | 41.7%        | <u>\$272,335</u> | 28.0%        | <u>\$241,503</u> | <u>27.8%</u> |

SG&A expenses as a percentage of net service revenues increased 13.7% in 2008 as compared to 2007. The impairment charge of \$129.4 million included in the table above, which is primarily composed of a goodwill impairment of \$128.4 million determined in accordance with SFAS 142, is primarily a result of the impact that the depressed economic environment, including the turmoil in the financial markets, illiquidity in the credit markets, and increasing jobless claims and unemployment rates, have had on overall equity values as well as our operations, forecasted cash flows and market capitalization. We adjusted our assumptions used to calculate the estimated fair value of our reporting units to account for the current macro-economic environment. Excluding the goodwill and intangible asset impairment charge of \$129.4 million, SG&A expenses as a percentage of net service revenues increased 0.7% in 2008 as compared to 2007. This was primarily attributable to the following:

- Increase in bad debt expense of 0.4% of net service revenues. The increase in bad debt expense as a percentage of net service revenues for the year ended December 31, 2008 is primarily attributable to an increase in: (i) accounts receivable write-offs and (ii) the increase in our allowance for doubtful accounts and fallouts reserve during 2008. Management considered significant recent developments such as the rise in sudden business failures resulting primarily from the turmoil in the financial and credit markets, a U.S. recession as well as Kforce’s exposure to customers in high-risk sectors such as the financial services industry, in determining the allowance for doubtful accounts and fallouts reserve as of December 31, 2008.
- Increase in compensation and benefits of 1.2% of net service revenues, which was primarily related to increased stock-based compensation. As of January 1, 2006, Kforce accounts for stock-based compensation under the provisions of SFAS 123R, *Share-Based Payment* (“SFAS 123R”). This statement requires Kforce to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. Stock-based compensation expense, which includes options, stock appreciation rights (“SARS”), performance accelerated restricted stock (“PARS”) and restricted stock (“RS”), for the years ended December 31, 2008 and 2007 was \$11.7 million and \$3.4 million, respectively. The increase of \$8.3 million, or 0.8% of net service revenues, was primarily attributable to the acceleration of the vesting of certain equity awards during the three months ended June 30, 2008, as was more fully discussed in Note 13 – “Stock Incentive Plans” to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. The remaining increase in compensation and benefits expense as a percentage of net service revenues in 2008 is primarily a result of increased expenses driven by the implementation of additional incentive plans, base compensation increases and increasing costs of payroll taxes, particularly unemployment taxes which have risen in recent years, as well as increases in health insurance costs. These increases were offset by decreased bonuses reflecting our guiding principle related to pay-for-performance compensation plans.
- Decrease in commission expense of 1.1% of net service revenues, which was primarily attributable to: (i) a decline in the percentage contribution of Search fees, which generally has a higher commission rate, to total gross profit, (ii) productivity being driven by a favorable shift in associate tenure, and (iii) an overall reduction in headcount.
- During 2007, Kforce recorded reductions to selling, general and administrative expenses of \$1.8 million related to a workers’ compensation insurance premium audit, the elimination of an escheatment liability, and other miscellaneous activity. Each of these amounts was related to Kforce’s 2004 acquisition of Hall Kinion and represented 0.2% of net service revenues. These items were not present in 2008.
- Decreases in discretionary expenses such as lease, travel and office-related expenses including postage and supplies as a percentage of revenue as a result of a focus on cost containment.

The increase in compensation and benefits expense as a percentage of net service revenues in 2007 is primarily a result of increased expenses driven by the implementation of additional incentive plans, increased bonuses reflecting our guiding principle related to pay-for-performance compensation plans, increased headcount, increasing costs of payroll taxes, particularly unemployment taxes which have risen in recent years, as well as increases in health insurance costs. As previously mentioned, these increases were offset by the reduction to SG&A expenses of \$1.8 million related to a workers’ compensation insurance premium audit, the elimination of an escheatment liability and other miscellaneous activity. Each of these amounts was related to Kforce’s 2004 acquisition of Hall Kinion and represented 0.2% of net service revenues.

Kforce has substantially restructured both its field and back office operations over the past several years in an effort to manage SG&A expenses. Some of the activities completed over the past three years as a result of restructuring include: (1) the roll-out of a new front-end system that is utilized primarily by our field personnel in the staffing and recruitment process and related methodologies in our field operations to ensure a consistent, disciplined process in our sales, recruiting and delivery activities; (2) the restructuring of our compensation plans to more closely align with actual performance; and (3) the restructuring and consolidation of our technology infrastructure. As a result of increased efficiencies achieved by these actions, we believe our back office and other support service costs will increase at a lower rate than our revenues and profit in a growing environment.

**Depreciation and amortization.** The following table presents depreciation and amortization expense by major category for the years ended December 31, 2008, 2007 and 2006 as well as the increases experienced during 2008 and 2007:

| <u>(in \$000's)</u>                 | <u>2008</u>     | <u>Increase<br/>(Decrease)</u> | <u>2007</u>     | <u>Increase<br/>(Decrease)</u> | <u>2006</u>     |
|-------------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|
| Fixed asset depreciation            | \$ 2,777        | 18.0%                          | \$ 2,353        | 20.2%                          | \$ 1,958        |
| Capital lease asset depreciation    | 2,638           | (11.1)                         | 2,969           | 29.5                           | 2,293           |
| Capitalized software amortization   | 4,720           | 29.6                           | 3,641           | 55.5                           | 2,342           |
| Intangible asset amortization       | 3,689           | (33.2)                         | 5,524           | 13.1                           | 4,885           |
| Other amortization                  | —               | —                              | —               | (100.0)                        | 73              |
| Total depreciation and amortization | <u>\$13,824</u> | (4.6)%                         | <u>\$14,487</u> | 25.4%                          | <u>\$11,551</u> |

*Fixed Asset Depreciation:* The \$0.4 million increases in 2008 and 2007 were primarily related to increases in the purchase of computer hardware in 2008 and on leasehold improvements in 2007, which resulted primarily from expansions in the business and the number of field office lease renewals.

*Capital Lease Asset Depreciation:* The \$0.3 million decrease and \$0.7 million increase in 2008 and 2007, respectively, were primarily related to decisions to purchase certain significant computer equipment in 2008 as opposed to leasing, and increases in computer hardware and furniture and equipment under capital leases as opposed to operating leases in 2007, as determined by SFAS No. 13, *Accounting for Leases*.

*Capitalized Software Amortization:* The \$1.1 million and \$1.3 million increases in 2008 and 2007, respectively, are primarily related to the commencement of amortization on the new back office computer system software in August 2007 offset by the completion of amortization of the front office system in April 2008. During 2007, Kforce implemented additional back office system software modules, which we believe will enhance the efficiency and productivity of our sales and delivery activities such as our order, time entry, billing and cash receipt processes as well as improve customer service.

*Intangible Asset Amortization:* The \$1.8 million decrease in 2008 is primarily related to (i) a decrease in identifiable intangible assets of \$6.5 million during the fourth quarter of 2007, which resulted from the finalization of the Bradson valuation, and (ii) certain identifiable intangible assets being fully amortized during 2008. The \$0.6 million increase in 2007 is primarily related to the acquisitions of Bradson and PCCI in October and February of 2006, respectively.

**Other Expense, Net.** Other expense was \$2.1 million in 2008, \$4.4 million in 2007 and \$3.7 million in 2006, and consists primarily of interest expense related to Kforce's Credit Facility. The decrease of \$2.3 million and increase of \$0.7 million, respectively, was primarily due to interest expense decreases and increases resulting primarily from the 2006 acquisitions of PCCI and Bradson, which were funded using borrowings under Kforce's Credit Facility. As a result of Kforce's continued emphasis on paying down outstanding debt during 2008 and 2007, corresponding decreases in interest expense have been realized. The reduction in 2008 was also related to a decline in Kforce's weighted average borrowing rate.

**Income Tax Expense.** Income tax expense as a percentage of income from continuing operations before income taxes (our "effective rate for continued operations") for each of the three years ended December 31, 2008 was (2.2)%, 39.3% and 38.7%, respectively. The change in the effective tax rate for 2008 was primarily related to the largely non-deductible goodwill impairment charge.

**Income from Discontinued Operations, Net of Income Taxes.** Discontinued operations include the consolidated income and expense of Kforce's Scientific and Nursing businesses. During the three months ended June 30, 2008, Kforce completed the sale of its Scientific and per-diem Nursing businesses resulting in a pre-tax gain of \$7.3 million for the year ended December 31, 2008. Included in the determination of the pre-tax gain is \$2.1 million of goodwill that was allocated to the carrying value of these businesses upon disposition, and transaction expenses which primarily include commissions, legal fees and transaction bonuses totaling \$1.4 million. Kforce does not currently anticipate incurring any significant costs related to these discontinued operations in future periods.

Income tax expense as a percentage of income from discontinued operations, before income taxes, for each of the three years ended December 31, 2008 was 41.0%, 39.3% and 38.7%, respectively. The increase in the effective income tax rate of discontinued operations for the year ended December 31, 2008 is primarily related to the non-deductibility of a portion of the goodwill that was allocated to the carrying value of the per-diem Nursing business upon its disposition.

## 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, 2008, Kforce had \$60.3 million in working capital compared to \$95.3 million in 2007. Kforce's current ratio (current assets divided by current liabilities) was 1.7 at the end of 2008 as compared to 2.1 at the end of 2007. As a result of the significant reduction in Kforce's long-term debt driven primarily by strong cash flows from operations during the year ended December 31, 2008, offset by the net loss for 2008 due to the goodwill and intangible asset impairment charge, our percentage of long-term debt (defined as borrowings under our Credit Facility) to equity increased to 18.5% as of December 31, 2008 from 16.1% as of December 31, 2007.

Please see the accompanying Consolidated Statements of Cash Flows for each of the three years ended December 31, 2008 in Item 8. Financial Statements and Supplementary Data, for a more detailed description of our cash flows. Kforce is principally focused on achieving the appropriate balance in the following areas of cash flow: (i) achieving positive cash flow from operating activities, (ii) reducing the outstanding balance of our Credit Facility, (iii) repurchasing our common stock, (iv) investing in our infrastructure to allow sustainable growth via capital expenditures, and (iv) making strategic acquisitions.

We believe that existing cash and cash equivalents, cash flow from operations, and available borrowings under our Credit Facility will be adequate to meet the capital expenditure and working capital requirements of our operations for at least the next twelve months. However, deterioration in the economic environment and market conditions could negatively impact operating results and liquidity as well as the ability of our lenders to fund borrowings. There is no assurance that: (a) our lenders will be able to fund our borrowings; or (b) if operations were to deteriorate and additional financing were to become necessary, we would be able to obtain financing in amounts sufficient to meet operating requirements or at terms which are satisfactory and which allow us to remain competitive. Our expectation that existing resources will fund capital expenditure and working capital requirements is a forward-looking statement that is subject to risks and uncertainties.

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

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

| (in \$000's)                              | Years Ended December 31, |                 |                    |
|---|--------------------------|-----------------|--------------------|
|   | 2008                     | 2007            | 2006               |
| Cash provided by (used in):               |                          |                 |                    |
| Operating activities                      | \$ 89,328                | \$ 48,770       | \$ 51,948          |
| Investing activities                      | (39,442)                 | (14,388)        | (144,142)          |
| Financing activities                      | (50,309)                 | (34,888)        | 56,679             |
| Net decrease in cash and cash equivalents | <u>\$ (423)</u>          | <u>\$ (506)</u> | <u>\$ (35,515)</u> |

### Discontinued Operations

As was previously discussed, Kforce sold its Scientific and its per-diem Nursing businesses on April 29, 2008 and June 29, 2008, respectively. The accompanying Consolidated Statements of Cash Flows have been presented on a combined basis (continuing operations and discontinued operations). Cash flows provided by discontinued operations for all prior periods, including the year ended December 31, 2008, 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 (loss) income are principally related to adjustments to net (loss) income for certain non-cash charges such as a goodwill and intangible asset impairment charge, depreciation and amortization expense, stock-based compensation and the gain on sale of discontinued operations. These adjustments are more fully detailed in our Consolidated Statements of Cash Flows for the three years ended December 31, 2008 in Item 8. Financial Statements and Supplementary Data. The largest source and use of operating cash flows for Kforce are the collection of customer accounts receivable and the payment of our employee and consultant population's compensation, which includes base salary, commissions and bonuses. The increase in operating activities in 2008 is primarily related to the collection of customer accounts receivable.

## **Investing Activities**

Kforce's acquisitions of RDI in 2008 and Bradson and PCCI in 2006 were substantially funded with borrowings under our Credit Facility. In addition, capital expenditures have been made over the years on Kforce's infrastructure as we grow our business. Capital expenditures during 2008 and 2007 were \$8.5 million and \$11.4 million, respectively. The capital expenditures in 2007 were substantially related to additional back office system software modules, which, as mentioned previously, went live during August 2007. We believe these investments will enhance the efficiency and productivity of our sales and delivery activities such as our order, time entry, billing and cash receipt processes as well as improve customer service. We believe that 2008 was a more normalized level of capital expenditures that we would expect to see for the foreseeable future. Kforce believes it has sufficient cash and/or availability under its Credit Facility to make any necessary future capital expenditures.

Cash proceeds from the dispositions of our Scientific and per-diem Nursing businesses were \$12.0 million for the year ended December 31, 2008. 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 2008, open market repurchases of common stock were \$36.7 million. In addition, strong operating cash flows and the disposition of businesses allowed Kforce to reduce its outstanding borrowings under the Credit Facility to \$38.0 million as of December 31, 2008 from \$50.3 million as of December 31, 2007, even after factoring in the acquisition of RDI. Kforce's outstanding borrowings under the Credit Facility in October 2006, following the acquisition of Bradson, were \$103.0 million and were \$0 immediately preceding the acquisition of RDI, which reflects Kforce's ability to use strong operating cash flows as well as the proceeds from the disposition of certain businesses to reduce outstanding borrowings.

### *Credit Facility*

On October 2, 2006, Kforce entered into a Second Amended and Restated Credit Agreement, with a syndicate led by Bank of America, N.A. (the "Credit Facility"). Kforce's maximum borrowings under the Credit Facility are \$140 million, which includes a revolving loan tranche of up to \$125 million (the "Revolving Loan Amount") and a \$15 million sub-limit for letters of credit. In April 2007, an additional revolving loan tranche (the "Additional Availability Amount") that allowed up to \$25 million was retired by Kforce.

Borrowings under the Credit Facility are limited to 85% of eligible accounts receivable less certain minimum availability reserves and bear interest at a rate of LIBOR plus 1.25% or Prime. 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 1.25% per annum of the total amount of 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 equal to 0.25% of the average unused balance on a monthly basis. Borrowings under the Credit Facility are principally secured by our accounts receivable but are also secured by substantially all of the assets of Kforce. Under the Credit Facility, Kforce is required to maintain a minimum fixed charge coverage ratio in the event that it is unable to maintain minimum availability under the Credit Facility of \$15 million. As of December 31, 2008, Kforce had availability under the Credit Facility in excess of the minimum requirement; therefore, the minimum fixed charge coverage ratio was not applicable. Kforce believes that it will be able to maintain the minimum availability requirement; however, in the event that Kforce is unable to do so, the goodwill and other intangible asset impairment charge would result in Kforce failing the fixed charge coverage ratio under its current definition, which would constitute an event of default. The Credit Facility expires during November 2011.

As of December 31, 2008, \$38.0 million was outstanding and \$53.7 million was available under the Credit Facility. As of March 6, 2009, \$52.5 million was outstanding and \$50.3 million was available under the Credit Facility. Kforce is not currently aware of any inability of our bank group participants to provide access to the full commitment of funds that exist under our Credit Facility, if necessary. However, due to recent economic conditions and the deteriorating business climate facing financial institutions, there can be no assurance that such facility will remain available to Kforce, even though it is a binding commitment.

## Off-Balance Sheet Arrangements

Kforce does not have any off-balance sheet arrangements that have had, or are expected to have, a material effect on our consolidated financial statements.

## Stock Repurchases

As of December 31, 2007, \$14.8 million remained available for future repurchases. During February 2008, our Board of Directors increased its authorization for open market repurchases of common stock by \$50 million to bring the total to \$64.8 when combined with the \$14.8 million that was available under the then-current Board authorization as of December 31, 2007. During November 2008, our Board of Directors increased its authorization for repurchases of common stock to \$75 million.

During the year ended December 31, 2008, Kforce repurchased 4.5 million shares of common stock at a total cost of \$37.9 million. As of December 31, 2008, \$74.8 million remains available for future repurchases.

On December 31, 2008, Kforce filed a Form 8-K with the SEC announcing that it had entered into a corporate stock repurchase plan in accordance with Rule 10b5-1 of the Exchange Act, which was effective from January 1, 2009 through February 13, 2009. This corporate stock repurchase plan was subject to certain price, market, volume and timing constraints, which were specified in the plan.

## Contractual Obligations and Commitments

The following table presents our expected future contractual obligations as of December 31, 2008:

| (in \$000's)  | Payments due by period |                     |                 |                 |                      |
|---|------------------------|---------------------|-----------------|-----------------|----------------------|
|   | Total                  | Less than<br>1 year | 1-3 Years       | 3-5 Years       | More than<br>5 years |
| Operating lease obligations                           | \$ 37,382              | \$ 9,399            | \$12,474        | \$ 7,415        | \$ 8,094             |
| Capital lease obligations                             | 4,758                  | 2,163               | 2,011           | 584             | —                    |
| Credit facility                                       | 38,022                 | —                   | 38,022          | —               | —                    |
| Interest payable – credit facility (a)                | 2,844                  | 1,004               | 1,840           | —               | —                    |
| Purchase obligations                                  | 6,969                  | 3,199               | 3,560           | 210             | —                    |
| Liability for unrecognized tax positions – FIN 48 (b) | —                      | —                   | —               | —               | —                    |
| Deferred compensation plan liability (c)              | 12,180                 | 683                 | 968             | 496             | 10,033               |
| Other (d)   | —                      | —                   | —               | —               | —                    |
| Supplemental executive retirement plan (e)            | 28,447                 | —                   | —               | 7,378           | 21,069               |
| Supplement executive retirement health plan (e)       | 2,424                  | —                   | —               | 11              | 2,413                |
| Foreign defined benefit pension plan (f)              | 8,844                  | —                   | 196             | —               | 8,648                |
| Total   | <u>\$141,870</u>       | <u>\$16,448</u>     | <u>\$59,071</u> | <u>\$16,094</u> | <u>\$ 50,257</u>     |

- (a) Kforce's weighted average interest rate as of December 31, 2008 was 2.64%, 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, which expires in November 2011.
- (b) Kforce's liability for unrecognized tax positions pursuant to FIN 48 as of December 31, 2008 was \$0.2 million. This balance has been excluded from the table above due to the significant uncertainty with respect to expected settlements.
- (c) 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 classified as other accrued liabilities and other long-term liabilities, respectively, are payable upon retirement or termination of employment. Amounts payable upon the retirement or termination of employment may become payable during the next five years if covered employees retire or terminate during that time.
- (d) Kforce provides letters of credit to certain vendors in lieu of cash deposits. Kforce currently has letters of credit totaling \$5.1 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 million under its Credit Facility.
- (e) There is no funding requirement associated with the SERP or the SERHP. Although the funding amount is not currently known, Kforce anticipates funding the SERP and SERHP during 2009. Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2008. See Note 12 – "Employee Benefit Plans" to the Consolidated Financial Statements for more detail.
- (f) Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2008. There is no funding requirement associated with this plan.

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 U.S. Internal Revenue Service audits as well as state and other local income tax audits for various tax years. As of December 31, 2008, Kforce Global Solutions, a wholly-owned subsidiary of Kforce Government Holdings, Inc., had an ongoing audit of their 2006 tax return with the Philippines Bureau of Inland Revenue. No assessments related to this audit have been proposed as of December 31, 2008. Although Kforce's history with income tax audits has been positive, which we believe will continue in the future, Kforce can make no assurances that this will continue.

### **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

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

As of December 31, 2008, we had approximately \$38.0 million outstanding under our Credit Facility. Our weighted average effective interest rate on our Credit Facility was 2.64% at December 31, 2008. A hypothetical 10% increase in interest rates in effect at December 31, 2008 would have the effect of increasing annualized interest expense on borrowings outstanding as of December 31, 2008 by \$0.1 million.

From time to time, Kforce enters into interest rate swaps to minimize the risks and costs associated with financing activities. We do not engage in trading market-risk-sensitive instruments for speculative purposes. As of and during the three years ended December 31, 2008, there were no interest rate swaps outstanding nor did Kforce enter into or settle any interest rate swaps.

We do not believe that we have a material exposure to fluctuations in foreign currencies because our international operations represented approximately 1% of net service revenues for the year ended December 31, 2008 and because our international operations' functional currency is the US Dollar. However, Kforce will continue to assess the impact which currency fluctuations could have on our operations going forward.

**Item 8. Financial Statements and Supplementary Data**

**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, 2008 and 2007, and the related consolidated statements of operations and comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited Kforce’s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Kforce’s management is responsible for these financial statements and financial statement schedule, 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 financial statement schedule 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, 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 as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, Kforce maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP  
Certified Public Accountants

Tampa, Florida  
March 11, 2009

**KFORCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**  
*(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)*

|  | <b>YEARS ENDED DECEMBER 31,</b> |                  |                  |
|--|---------------------------------|------------------|------------------|
|  | <b>2008</b>                     | <b>2007</b>      | <b>2006</b>      |
| Net service revenues   | \$997,017                       | \$972,781        | \$868,001        |
| Direct costs of services   | 652,366                         | 620,758          | 563,252          |
| Gross profit   | 344,651                         | 352,023          | 304,749          |
| Selling, general and administrative expenses, excluding impairment | 286,475                         | 272,335          | 241,503          |
| Goodwill and intangible asset impairment                           | 129,409                         | —                | —                |
| Selling, general and administrative expenses                       | 415,884                         | 272,335          | 241,503          |
| Depreciation and amortization                                      | 13,824                          | 14,487           | 11,551           |
| (Loss) Income from operations                                      | (85,057)                        | 65,201           | 51,695           |
| Other expense (income):  |                                 |                  |                  |
| Interest income  | (73)                            | (178)            | (174)            |
| Interest expense   | 2,331                           | 4,603            | 3,966            |
| Other income   | (122)                           | (3)              | (91)             |
| (Loss) Income from continuing operations, before income taxes      | (87,193)                        | 60,779           | 47,994           |
| Income tax expense   | 1,928                           | 23,856           | 18,550           |
| (Loss) Income from continuing operations                           | (89,121)                        | 36,923           | 29,444           |
| Income from discontinued operations, net of income taxes           | 5,013                           | 3,444            | 3,075            |
| Net (loss) income  | (84,108)                        | 40,367           | 32,519           |
| Other comprehensive income:  |                                 |                  |                  |
| Pension and postretirement plans adjustments, net of tax           | 389                             | —                | —                |
| Comprehensive (loss) income  | <u>\$ (83,719)</u>              | <u>\$ 40,367</u> | <u>\$ 32,519</u> |
| (Loss) Earnings per share – basic                                  |                                 |                  |                  |
| From continuing operations   | (2.26)                          | 0.90             | 0.73             |
| From discontinued operations                                       | 0.13                            | 0.08             | 0.08             |
| (Loss) Earnings per share – basic                                  | <u>\$ (2.13)</u>                | <u>\$ 0.98</u>   | <u>\$ 0.81</u>   |
| (Loss) Earnings per share – diluted                                |                                 |                  |                  |
| From continuing operations   | (2.26)                          | 0.87             | 0.70             |
| From discontinued operations                                       | 0.13                            | 0.08             | 0.07             |
| (Loss) Earnings per share – diluted                                | <u>\$ (2.13)</u>                | <u>\$ 0.95</u>   | <u>\$ 0.77</u>   |
| Weighted average shares outstanding – basic                        | <u>39,471</u>                   | <u>41,308</u>    | <u>40,189</u>    |
| Weighted average shares outstanding – diluted                      | <u>39,471</u>                   | <u>42,294</u>    | <u>42,012</u>    |

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

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

|   | <b>DECEMBER 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2008</b>         | <b>2007</b> |
| <b>ASSETS</b>   |                     |             |
| <b>Current Assets:</b>  |                     |             |
| Cash and cash equivalents   | \$ 660              | \$ 1,083    |
| Trade receivables, net of allowance for doubtful accounts and fallouts of \$6,370 and \$3,002, respectively | 132,428             | 166,777     |
| Income tax refund receivable  | 487                 | 377         |
| Deferred tax asset, net   | 5,994               | 8,409       |
| Prepaid expenses and other current assets   | 6,177               | 4,268       |
| Total current assets  | 145,746             | 180,914     |
| Fixed assets, net   | 14,687              | 13,355      |
| Other assets, net   | 29,032              | 31,982      |
| Deferred tax asset, net   | 10,627              | —           |
| Intangible assets, net  | 10,604              | 12,276      |
| Goodwill  | 140,119             | 237,609     |
| Total assets  | \$ 350,815          | \$ 476,136  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |             |
| <b>Current Liabilities:</b>   |                     |             |
| Accounts payable and other accrued liabilities  | \$ 28,084           | \$ 25,222   |
| Accrued payroll costs   | 51,310              | 53,613      |
| Other current debt  | 1,917               | 3,859       |
| Income taxes payable  | 4,133               | 2,872       |
| Total current liabilities   | 85,444              | 85,566      |
| Long-term debt – credit facility  | 38,022              | 50,330      |
| Long-term debt – other  | 2,294               | 2,670       |
| Deferred tax liability, net   | —                   | 6,624       |
| Other long-term liabilities   | 19,212              | 18,478      |
| Total liabilities   | 144,972             | 163,668     |
| Commitments and contingencies (see Note 14)   |                     |             |
| <b>Stockholders' Equity:</b>  |                     |             |
| Preferred stock, \$0.01 par; 15,000 shares authorized, none issued and outstanding                          | —                   | —           |
| Common stock, \$0.01 par; 250,000 shares authorized, 61,866 and 60,919 issued, respectively                 | 619                 | 609         |
| Additional paid-in capital  | 325,187             | 310,165     |
| Accumulated other comprehensive income  | 389                 | —           |
| Retained earnings   | 28,472              | 112,580     |
| Treasury stock, at cost; 23,850 and 19,365 shares, respectively   | (148,824)           | (110,886)   |
| Total stockholders' equity  | 205,843             | 312,468     |
| Total liabilities and stockholders' equity  | \$ 350,815          | \$ 476,136  |

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

**KFORCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
*(IN THOUSANDS)*

|  | <b>YEARS ENDED DECEMBER 31,</b> |                    |                    |
|--|---------------------------------|--------------------|--------------------|
|  | <b>2008</b>                     | <b>2007</b>        | <b>2006</b>        |
| <b>Common stock – shares:</b>  |                                 |                    |                    |
| Shares at beginning of period  | 60,919                          | 60,383             | 57,895             |
| Exercise of stock options  | 371                             | 536                | 1,740              |
| Stock issued for business acquired   | —                               | —                  | 450                |
| Issuance of restricted stock   | 576                             | —                  | 298                |
| Shares at end of period  | <u>61,866</u>                   | <u>60,919</u>      | <u>60,383</u>      |
| <b>Common stock – par value:</b>   |                                 |                    |                    |
| Balance at beginning of period   | \$ 609                          | \$ 604             | \$ 579             |
| Exercise of stock options  | 4                               | 5                  | 17                 |
| Stock issued for business acquired   | —                               | —                  | 5                  |
| Issuance of restricted stock   | 6                               | —                  | 3                  |
| Balance at end of period   | <u>\$ 619</u>                   | <u>\$ 609</u>      | <u>\$ 604</u>      |
| <b>Additional paid-in capital:</b>   |                                 |                    |                    |
| Balance at beginning of period   | \$ 310,165                      | \$ 300,485         | \$ 278,486         |
| Exercise of stock options  | 2,591                           | 4,113              | 10,401             |
| Income tax benefit from restricted stock and stock option exercises                                  | 416                             | 1,530              | 5,700              |
| Stock issued for business acquired   | —                               | —                  | 5,197              |
| Reclassification of unamortized stock-based compensation to additional paid-in capital               | —                               | —                  | (1,094)            |
| Stock-based compensation   | 11,744                          | 3,430              | 1,160              |
| Employee stock purchase plan   | 277                             | 607                | 638                |
| Issuance of restricted stock   | (6)                             | —                  | (3)                |
| Balance at end of period   | <u>\$ 325,187</u>               | <u>\$ 310,165</u>  | <u>\$ 300,485</u>  |
| <b>Unamortized stock-based compensation:</b>   |                                 |                    |                    |
| Balance at beginning of period   | \$ —                            | \$ —               | \$ (1,094)         |
| Reclassification of unamortized stock-based compensation to additional paid-in capital               | —                               | —                  | 1,094              |
| Balance at end of period   | <u>\$ —</u>                     | <u>\$ —</u>        | <u>\$ —</u>        |
| <b>Accumulated other comprehensive income:</b>   |                                 |                    |                    |
| Balance at beginning of period   | \$ —                            | \$ —               | \$ —               |
| Pension and postretirement plans adjustment, net of tax of \$310                                     | 389                             | —                  | —                  |
| Balance at end of period   | <u>\$ 389</u>                   | <u>\$ —</u>        | <u>\$ —</u>        |
| <b>Retained earnings:</b>  |                                 |                    |                    |
| Balance at beginning of period   | \$ 112,580                      | \$ 72,213          | \$ 39,694          |
| Net (loss) income  | (84,108)                        | 40,367             | 32,519             |
| Balance at end of period   | <u>\$ 28,472</u>                | <u>\$ 112,580</u>  | <u>\$ 72,213</u>   |
| <b>Treasury stock – shares:</b>  |                                 |                    |                    |
| Shares at beginning of period  | 19,365                          | 19,451             | 19,238             |
| Open market repurchases of common stock  | 4,395                           | —                  | 385                |
| Shares tendered in payment of the exercise price of stock options                                    | 52                              | —                  | —                  |
| Shares repurchased for minimum tax withholding on restricted stock awards and stock option exercises | 134                             | —                  | —                  |
| Employee stock purchase plan   | (96)                            | (86)               | (172)              |
| Shares at end of period  | <u>23,850</u>                   | <u>19,365</u>      | <u>19,451</u>      |
| <b>Treasury stock – cost:</b>  |                                 |                    |                    |
| Balance at beginning of period   | \$(110,886)                     | \$(111,377)        | \$(106,963)        |
| Open market repurchases of common stock  | (36,712)                        | —                  | (5,373)            |
| Shares tendered in payment of the exercise price of stock options                                    | (578)                           | —                  | —                  |
| Shares repurchased for minimum tax withholding on restricted stock awards and stock option exercises | (1,220)                         | —                  | —                  |
| Employee stock purchase plan   | 572                             | 491                | 959                |
| Balance at end of period   | <u>\$(148,824)</u>              | <u>\$(110,886)</u> | <u>\$(111,377)</u> |

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

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

|   | <b>YEARS ENDED DECEMBER 31,</b> |                 |                  |
|---|---------------------------------|-----------------|------------------|
|   | <b>2008</b>                     | <b>2007</b>     | <b>2006</b>      |
| <b>Cash flows from operating activities:</b>  |                                 |                 |                  |
| Net (loss) income   | \$ (84,108)                     | \$ 40,367       | \$ 32,519        |
| <b>Adjustments to reconcile net (loss) income to cash provided by operating activities:</b>                   |                                 |                 |                  |
| Goodwill and intangible asset impairment  | 129,409                         | —               | —                |
| Deferred income tax (benefit) provision, net  | (16,389)                        | 6,176           | 18,603           |
| Gain on sale of discontinued operations   | (7,330)                         | —               | —                |
| Provision for (recovery of) bad debts on accounts receivable and fallouts                                     | 5,135                           | 1,214           | (1,721)          |
| Depreciation and amortization   | 13,824                          | 14,487          | 11,552           |
| Stock-based compensation  | 11,744                          | 3,430           | 1,160            |
| Pension and postretirement benefit plans expense  | 2,860                           | 2,129           | 4                |
| Amortization of alternative long-term incentive expense   | —                               | 641             | 867              |
| Tax benefit attributable to option exercises  | 416                             | 1,530           | —                |
| Excess tax benefit attributable to option exercises   | (57)                            | (934)           | (4,058)          |
| Deferred compensation liability (decrease) increase, net  | (5,261)                         | 996             | 859              |
| Loss (gain) on cash surrender value of company-owned life insurance policies                                  | 6,168                           | (309)           | (521)            |
| Loss (gain) on asset sales  | 158                             | (406)           | 24               |
| Other   | (24)                            | —               | —                |
| <b>(Increase) decrease in operating assets, net of acquisitions:</b>  |                                 |                 |                  |
| Trade receivables, net  | 31,748                          | (33,538)        | (10,207)         |
| Income tax refund receivable  | (110)                           | 690             | 2,140            |
| Prepaid expenses and other current assets   | (236)                           | 122             | 53               |
| Other assets, net   | 476                             | 143             | 111              |
| <b>Increase (decrease) in operating liabilities, net of acquisitions:</b>                                     |                                 |                 |                  |
| Accounts payable and other current liabilities  | (318)                           | 422             | (1,282)          |
| Accrued payroll costs   | (3,798)                         | 8,256           | 2,125            |
| Income taxes payable  | 1,413                           | 2,275           | (1,009)          |
| Other long-term liabilities   | 3,608                           | 1,079           | 729              |
| Cash provided by operating activities   | <u>89,328</u>                   | <u>48,770</u>   | <u>51,948</u>    |
| <b>Cash flows from investing activities:</b>  |                                 |                 |                  |
| Acquisitions, net of cash received  | (38,404)                        | 339             | (136,732)        |
| Proceeds from disposition of businesses   | 12,036                          | —               | —                |
| Capital expenditures  | (8,505)                         | (11,417)        | (6,433)          |
| Premiums paid for company-owned life insurance  | (4,594)                         | (3,825)         | (3,643)          |
| Cash proceeds received upon surrender of company-owned life insurance   | —                               | —               | 2,603            |
| Cash proceeds from asset sales  | 25                              | 515             | 63               |
| Cash used in investing activities   | <u>(39,442)</u>                 | <u>(14,388)</u> | <u>(144,142)</u> |
| <b>Cash flows from financing activities:</b>  |                                 |                 |                  |
| Proceeds from bank line of credit   | 395,232                         | 343,057         | 443,615          |
| Payments on bank line of credit   | (407,540)                       | (379,162)       | (392,180)        |
| Payment of loan financing costs   | —                               | —               | (529)            |
| Payment of capital expenditure financing  | (2,706)                         | (3,835)         | (3,330)          |
| Short-term vendor financing   | 563                             | —               | —                |
| Proceeds from exercise of stock options, net of shares tendered in payment of exercise price of stock options | 2,017                           | 4,118           | 10,418           |
| Excess tax benefit attributable to option exercises   | 57                              | 934             | 4,058            |
| Shares repurchased for minimum tax withholding on restricted stock awards and stock option exercises          | (1,220)                         | —               | —                |
| Open market repurchases of common stock   | (36,712)                        | —               | (5,373)          |
| Cash (used in) provided by financing activities   | <u>(50,309)</u>                 | <u>(34,888)</u> | <u>56,679</u>    |
| Change in cash and cash equivalents   | (423)                           | (506)           | (35,515)         |
| Cash and cash equivalents at beginning of year  | 1,083                           | 1,589           | 37,104           |
| Cash and cash equivalents at end of year  | <u>\$ 660</u>                   | <u>\$ 1,083</u> | <u>\$ 1,589</u>  |

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

**KFORCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

**1. Summary of Significant Accounting Policies**

***Organization and Nature of Operations***

Kforce Inc. and subsidiaries (“Kforce”) is a provider of professional staffing services and solutions to its customers in the following fields: Technology, Finance and Accounting, Health and Life Sciences and Government. Kforce provides flexible staffing services and solutions on both a temporary and full-time basis and also provides search services on both a contingency and retained basis. Kforce operates through its corporate headquarters in Tampa, Florida as well its 63 field offices, which are located throughout the United States. One of our subsidiaries, Kforce Global Solutions, Inc., provides outsourcing services internationally through two offices in Manila, Philippines. Our international operations comprised approximately 1% of net service revenues for the years ended December 31, 2008, 2007 and 2006.

Kforce serves clients from the Fortune 1000, the federal government, local and regional companies and small to mid-sized companies.

***Basis of Presentation***

The consolidated financial statements of Kforce have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”).

***Principles of Consolidation***

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

***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 revenue and expenses during the reporting period. The most important of these estimates and assumptions relate to the following: allowance for doubtful accounts and fallouts, accounting for goodwill and identifiable intangible assets and any related impairment, self-insured liabilities for workers’ compensation and health insurance, stock-based compensation, pension obligations 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 maturity.

***Allowance for Doubtful Accounts and Fallouts***

Kforce has established a reserve for expected credit losses and fallouts on trade receivables based on past experience and estimates of potential future write-offs. Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, changes in economic conditions, a specific analysis of material receivable balances that are past due, which is based on each receivable’s contractual terms and concentration of accounts receivable among clients in establishing this reserve. Trade receivables are written off by Kforce after all collection efforts have been exhausted. The allowance as a percentage of gross accounts receivable was 4.6% and 1.8% as of December 31, 2008 and 2007, respectively. In determining its allowance for doubtful accounts and fallouts reserve as of December 31, 2008, management considered significant developments, such as the rise in sudden business failures resulting primarily from the turmoil in the financial and credit markets, the U.S. recession, as well as Kforce’s exposure to customers in high-risk sectors such as the financial services industry.

As of December 31, 2008 and 2007, there was no individual client that had a receivable balance greater than 3.9% and 7.3%, respectively, of gross accounts receivable.

### ***Revenue Recognition***

We earn revenue from two primary sources: Flexible billings and Search fees. Flexible billings are recognized as the services are provided by Kforce's temporary employees, who are Kforce's legal employees while they are working on assignments. Kforce pays all related costs of such employment, including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. Search fees are recognized by Kforce when employment candidates accept offers of permanent employment and are scheduled to commence employment within 30 days. Kforce records revenue 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.

Net service revenues represent services rendered to customers less credits, discounts, rebates and allowances for fallouts. Revenue includes reimbursements of travel and out-of-pocket expenses ("billable expenses") with equivalent amounts of expense recorded in direct costs of services.

Our Government Solutions segment generates its revenues under contracts that are, in general, greater in duration than our other segments and which can often span several years. Revenues from contracts with fees based on time and materials or cost-plus, which account for the vast majority of this segment's contracts, are recognized as the services are performed and amounts are earned in accordance with the SEC Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"), as amended by SAB No. 104, *Revenue Recognition* ("SAB 104"). Kforce considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured. In such contracts, our efforts, measured by time incurred, typically represent the contractual milestones or output measure, which is the contractual earnings pattern. In addition, in such contracts, the fees earned are based on contractually established bill rates. Our Government Solutions segment does not generate any Search fees.

### ***Direct Costs of Services***

Direct costs of services are composed primarily of payroll wages, payroll taxes, payroll-related insurance for Kforce's flexible employees, and subcontract costs. Direct costs of permanent placement services primarily consist of reimbursable expenses. 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 (loss).

### ***Income Taxes***

Kforce accounts for income taxes under the principles of Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes* ("SFAS 109"). SFAS 109 requires the asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. SFAS 109 requires that unless it is "more likely than not" that a deferred tax asset can be utilized to offset future taxes, a valuation allowance must be recorded against that asset. The tax benefits of deductions attributable to the employees' disqualifying dispositions of shares obtained from incentive stock options, exercises of non-qualified options and vesting of restricted stock are reflected as increases in additional paid-in capital.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This interpretation clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under this interpretation, the evaluation of a tax position involves a two-step process. First, the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, based on the technical merits of the position. The second step measures the benefit to be recorded from tax positions that meet the more-likely-than-not recognition threshold, whereby the enterprise determines the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement, and recognizes that benefit in its financial statements. FIN 48 was adopted by Kforce effective January 1, 2007 and did not have a material impact on Kforce's consolidated financial position or results of operations.

### ***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 range from three to fifteen years.

### ***Fair Value of Financial Instruments***

Kforce uses fair value measurements in areas that include, but are not limited to, the allocation of purchase price consideration to tangible and identifiable intangible assets and liabilities, impairment of goodwill and long-lived assets, share-based compensation arrangements. Kforce, using available market information and appropriate valuation methodologies, has determined the estimated fair value of its financial instruments. However, considerable judgment is required in interpreting data to develop the estimates of fair value. The fair values of Kforce's financial instruments are estimated based on current market rates and instruments with the same risk and maturities. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and other current assets and liabilities approximate their fair values because of the short-term nature of these instruments. The fair value of long-term debt approximates its carrying value due to the variable nature of the interest rates under our Credit Facility.

On January 1, 2008, Kforce adopted the provisions of SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which established a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have any impact on our consolidated financial statements.

### ***Goodwill and Other Intangible Assets***

#### *Goodwill*

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), Kforce performs a goodwill impairment analysis, using the two-step method, on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. 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 consistently determines the fair market value of its reporting units based on a weighting of both the present value of future projected cash flows (the "income approach") and the use of comparative market multiples (the "market approach"). The market approach compares each of Kforce's reporting units to other comparable companies based on valuation multiples to arrive at a fair value. The income approach is based on assumptions that are consistent with Kforce's estimates of future cash flows. Factors requiring significant judgment include assumptions related to future growth rates, discount factors, and tax rates, among other considerations. Changes in economic or operating conditions that occur after the annual impairment analysis and that impact these assumptions, may result in a future goodwill impairment charge.

As is more fully described in Note 6, Kforce completed its annual goodwill impairment test as of December 31, 2008 for each of its reporting units and, as a result, recorded an impairment charge of \$128,429, which is included in goodwill and intangible asset impairment in the accompanying consolidated statements of operations and comprehensive income. No impairment charge was recorded for the years ended December 31, 2007 and 2006.

#### *Other Intangible Assets*

Identifiable intangible assets arising from certain of Kforce's acquisitions include non-compete agreements, contractual relationships, customer contracts, trademarks and trade names. 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 1 to 15 years.

The impairment evaluation for indefinite lived intangible assets, which for Kforce consists of trademarks and trade names, is conducted as of December 31 of each fiscal year or more frequently if events or changes in circumstances indicate that an asset may be impaired.

As is more fully described in Note 6, Kforce completed its annual impairment test as of December 31, 2008 and, as a result, recorded an impairment charge of \$980, which is included in goodwill and intangible asset impairment in the accompanying consolidated statements of operations and comprehensive income (loss). No impairment charge was recorded for the years ended December 31, 2007 and 2006.

### ***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 exceeds the fair value of the assets. Outside of the impairment charges discussed in the preceding section, there were no other impairment charges recorded during the three years ended December 31, 2008.

### ***Capitalized Software***

Kforce purchases, and in certain cases develops, and implements new computer software to enhance the performance of its accounting and operating systems. Direct internal costs such as payroll and payroll-related costs, and external costs incurred during the development stage of each project, are capitalized and classified as capitalized software. Kforce capitalized development-stage implementation costs of \$1,776, \$5,592 and \$2,331 during the years ended December 31, 2008, 2007 and 2006, 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 using the straight-line method, which range from 1 to 5 years.

### ***Commissions***

Our associates make placements and earn commissions as a percentage of actual revenue or gross profit pursuant to a calendar-year-basis commission plan. The amount of commissions paid as a percentage of revenue or gross profit increases as volume increases. Kforce accrues commissions for actual revenue or gross profit at a percentage equal to the percent of total expected commissions payable to total revenue or gross profit for the year.

### ***Stock-Based Compensation***

As of January 1, 2006, Kforce accounts for stock-based compensation under the provisions of SFAS No. 123R, *Share-Based Payment* ("SFAS 123R"). This statement requires Kforce to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

### ***Workers' Compensation***

Kforce retains the economic burden for the first \$250 per occurrence in workers' compensation claims except (i) in states that require participation in state-operated insurance funds and (ii) for its Government Solutions segment which is fully insured for workers' compensation claims. Workers' compensation includes ongoing healthcare 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 Incurred but Not Reported ("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.

### ***Taxes Assessed by Governmental Agencies – Revenue Producing Transactions***

Kforce adopted Emerging Issues Task Force ("EITF") Issue No. 06-3 ("EITF 06-3"), *Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions*, on January 1, 2007, which did not have an impact on Kforce's consolidated financial statements. 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.

### ***Health Insurance***

Except for certain fully insured health insurance lines of coverage, Kforce retains liability of up to \$250 annually for each health insurance participant. 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.

### ***Business Combinations***

Kforce utilizes the purchase method in accounting for acquisitions whereby the total purchase price is first allocated to the tangible and identifiable intangible assets acquired and liabilities assumed, and any remaining purchase price is allocated to goodwill. Kforce recognizes intangible assets apart from goodwill if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. Assumptions and estimates are used in determining the fair value of assets acquired and liabilities assumed in a business combination. Valuation of intangible

assets acquired requires that we use significant judgment in determining fair value, whether such intangibles are amortizable and, if the asset is amortizable, the period and the method by which the intangible asset will be amortized. Changes in the initial assumptions could lead to changes in amortization charges recorded in our financial statements. Additionally, estimates for purchase price allocations may change as subsequent information becomes available.

### Accounting for Postretirement Benefits

We adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (“SFAS 158”) on December 31, 2006. SFAS 158 requires Kforce to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur, through comprehensive income. SFAS 158 also requires Kforce to measure the funded status of a plan as of the date of its fiscal year-end, with limited exceptions.

Under SFAS 158, Kforce continues to apply the provisions of SFAS No. 87, *Employers' Accounting for Pensions* (“SFAS 87”) and SFAS No. 88, *Employers' Accounting for Settlements and Curtailment of Defined Benefit Pension Plans and for Termination Benefits* (“SFAS 88”), in measuring plan assets and benefit obligations and in determining the net periodic benefit cost associated with the Supplemental Executive Retirement Plan. In addition, Kforce continues to apply the provisions of SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (“SFAS 106”) in measuring plan assets and benefit obligations and in determining the net periodic benefit cost associated with the Supplemental Executive Retirement Health Plan.

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

### (Loss) Earnings per Share

Basic loss or earnings per share is computed as loss or earnings divided by weighted average number of common shares outstanding during the period. Diluted loss or earnings per common share is computed by dividing the loss or 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 non-vested stock grants 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 loss or earnings per share for the three years ended December 31, 2008:

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2008                     | 2007            | 2006            |
| <b>Numerator:</b>                               |                          |                 |                 |
| (Loss) income from continuing operations        | \$(89,121)               | \$36,923        | \$29,444        |
| Income from discontinued operations, net of tax | 5,013                    | 3,444           | 3,075           |
| Net (loss) income                               | <u>\$(84,108)</u>        | <u>\$40,367</u> | <u>\$32,519</u> |
| <b>Denominator:</b>                             |                          |                 |                 |
| Weighted average shares outstanding – basic     | 39,471                   | 41,308          | 40,189          |
| Common stock equivalents                        | —                        | 986             | 1,823           |
| Weighted average shares outstanding – diluted   | <u>39,471</u>            | <u>42,294</u>   | <u>42,012</u>   |
| <b>(Loss) earnings per share – basic:</b>       |                          |                 |                 |
| From continuing operations                      | \$ (2.26)                | \$ 0.90         | \$ 0.73         |
| From discontinued operations                    | 0.13                     | 0.08            | 0.08            |
| (Loss) earnings per share – basic               | <u>\$ (2.13)</u>         | <u>\$ 0.98</u>  | <u>\$ 0.81</u>  |
| <b>(Loss) earnings per share – diluted:</b>     |                          |                 |                 |
| From continuing operations                      | \$ (2.26)                | \$ 0.87         | \$ 0.70         |
| From discontinued operations                    | 0.13                     | 0.08            | 0.07            |
| (Loss) earnings per share – diluted             | <u>\$ (2.13)</u>         | <u>\$ 0.95</u>  | <u>\$ 0.77</u>  |

For the years ended December 31, 2008, 2007 and 2006, the total weighted average awards to purchase or receive 5,401, 826, and 1,201 shares of common stock were not included in the computations of diluted (loss) earnings per share, respectively, because these options would have had an anti-dilutive effect on (loss) earnings per share.

### ***Comprehensive Income (Loss)***

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Accumulated other comprehensive income solely includes the net after-tax impact of unrecognized actuarial gains and losses related to (i) the supplemental executive retirement benefit plan and supplemental executive retirement health plan, both of which cover a limited number of executives, and (ii) a defined benefit plan covering all eligible employees in our international Philippine operations. Since each of these plans is unfunded as of December 31, 2008, 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 a remeasurement is necessary.

This information is provided in our consolidated statements of operations and comprehensive income (loss).

### ***Accounting Standards Not Yet Adopted***

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ("SFAS 141R"), which replaces SFAS No. 141. SFAS 141R retains the purchase method of accounting for acquisitions but establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired (including intangibles), the liabilities assumed and any non-controlling interests in the acquired entity. SFAS 141R also changes the recognition of assets acquired and liabilities assumed arising from contingencies, and requires the expensing of acquisition-related costs as incurred, among others. SFAS 141R will apply prospectively to business combinations occurring in our fiscal year beginning January 1, 2009.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-2 ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. In February 2008, the FASB also issued FSP No. 157-1 ("FSP 157-1") that excludes leasing transactions accounted for under SFAS No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements. We do not expect the SFAS 157 related guidance to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This pronouncement requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of FSP 142-3, but do not expect the adoption to have a material impact on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets* ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We expect EITF 08-7 will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects are unknown at this time and will depend upon the nature, terms and value of the intangible assets purchased after the effective date.

International Financial Reporting Standards (IFRS) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the United States, which could, in the near term, provide domestic issuers with an alternative accounting method and ultimately could replace GAAP reporting requirements with IFRS reporting requirements. We are currently investigating the implications should we be required to adopt IFRS in the future.

## 2. Discontinued Operations

### *Scientific*

On April 29, 2008 (the “Scientific Closing Date”), Kforce entered into an Asset Purchase Agreement (the “Scientific APA”) pursuant to which it sold its Scientific business, a non-core business within its Health and Life Sciences segment, to Aerotek Scientific, LLC (the “Scientific Buyer”) for \$10,500 in cash, including \$1,150 held in escrow, plus additional earnout potential of up to an aggregate of \$1,500, measured over a 16-week period from the Scientific Closing Date. During the three months ended June 30, 2008, Kforce recorded a working capital adjustment of \$314, which reduced the gain on sale of discontinued operations. In addition, during the three months ended September 30, 2008, Kforce received \$1,500 from the Scientific Buyer representing the maximum earnout, which has been reflected as a gain on sale of discontinued operations.

In connection with the closing of the sale, Kforce entered into certain ancillary agreements with the Scientific Buyer, including a Transition Services Agreement (the “Scientific TSA”). Through the Scientific TSA, Kforce provided various temporary support services. The fees for these services were generally equivalent to Kforce’s cost. No such services will be provided in future periods.

Although the services provided under the Scientific TSA generated continuing cash flows between Kforce and the Scientific Buyer, the amounts were not considered to be either direct cash flows or significant to the ongoing operations of either entity. Also, Kforce received an earnout payment of \$1,500 from the Scientific Buyer in September 2008. However, under the provisions of EITF Issue No. 03-13, *Applying the Conditions of Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations* (“EITF 03-13”), contingent purchase consideration is considered an indirect continuing cash flow. In addition, Kforce had no contractual ability through the Scientific APA or any other agreement to significantly influence the operating or financial policies of the Scientific Buyer. As a result, pursuant to the provisions of EITF 03-13, Kforce had no significant continuing involvement in the operations of its Scientific business and, as such, classified such operating results as discontinued operations.

In accordance with the Scientific APA, Kforce is obligated to indemnify the Scientific Buyer for certain losses, as defined, in excess of \$50. Kforce’s obligations under the indemnification provisions of the Scientific APA shall, with the exception of certain items, cease 18 months from the Scientific Closing Date and are limited to an aggregate of \$3,475. Kforce believes any exposure under the indemnification provisions is remote and, as a result, did not record a liability as of December 31, 2008.

### *Nursing*

On June 29, 2008 (the “Nursing Closing Date”), Kforce entered into an Asset Purchase Agreement (the “Nursing APA”) pursuant to which it sold its per-diem Nursing business, a non-core business within its Health and Life Sciences segment, to Realtime Services, Inc. (the “Nursing Buyer”) for \$1,500 in cash, which was paid at closing. Additionally, Kforce and the Nursing Buyer entered into a subordinated secured promissory note in the amount of \$500 (the “Note”) that bears interest at a fixed rate of 6.0%. The interest and principal amount of the Note have been fully reserved. A balloon payment of \$500 plus all accrued and unpaid interest is due on June 30, 2011, the maturity date of the Note. The Note is collateralized by a lien on all of the Nursing Buyer’s assets but is subordinated to the Nursing Buyer’s obligations to its lender.

In connection with the closing of the sale, Kforce entered into certain ancillary agreements with the Nursing Buyer, including a Transition Services Agreement (the “Nursing TSA”). Through the Nursing TSA, Kforce provided various temporary support services. The fees for these services were generally equivalent to Kforce’s cost. No such services will be provided in future periods.

Although the services provided under the Nursing TSA generated continuing cash flows between Kforce and the Nursing Buyer, the amounts were not considered to be direct cash flows of the discontinued operation, as defined in EITF 03-13, nor were they significant to the ongoing operations of either entity. Kforce had no contractual ability through the Nursing APA or any other agreement to significantly influence the operating or financial policies of the Nursing Buyer. As a result, under the provisions of EITF 03-13, Kforce had no significant continuing involvement in the operations of the per-diem Nursing business sold to the Nursing Buyer and, as such, classified such operating results as discontinued operations.

In accordance with the Nursing APA, Kforce is obligated to indemnify the Nursing Buyer for certain losses, as defined, in excess of \$50. Kforce’s obligations under the indemnification provisions of the Nursing APA will, with the exception of certain items, cease 12 months from the Nursing Closing Date and are limited to an aggregate of \$375. Kforce believes any exposure under the indemnification provisions is remote and, as a result, did not record a liability as of December 31, 2008.

In addition, during the three months ended June 30, 2008, Kforce commenced and completed efforts to wind down the remaining operations of its non per-diem Nursing business, which included the permanent placement of a number of its temporary employees that were previously on assignment with its customers.

The financial results of Scientific and Nursing have been presented as discontinued operations in the accompanying consolidated statements of operations and comprehensive income (loss). The following summarizes the results from discontinued operations for each of the three years ended December 31, 2008:

|  | <u>YEARS ENDED DECEMBER 31,</u> |                 |                 |
|--|---------------------------------|-----------------|-----------------|
|  | <u>2008</u>                     | <u>2007</u>     | <u>2006</u>     |
| Net service revenues                                     | \$ 23,604                       | \$ 64,134       | \$ 70,447       |
| Direct costs of services and operating expenses          | (22,437)                        | (58,465)        | (65,435)        |
|  | 1,167                           | 5,669           | 5,012           |
| Gain on sale of discontinued operations                  | 7,330                           | —               | —               |
| Income from discontinued operations, before income taxes | 8,497                           | 5,669           | 5,012           |
| Income tax expense                                       | (3,484)                         | (2,225)         | (1,937)         |
| Income from discontinued operations, net of income taxes | <u>\$ 5,013</u>                 | <u>\$ 3,444</u> | <u>\$ 3,075</u> |

Included in the gain on sale of discontinued operations for the year ended December 31, 2008 are transaction expenses which primarily include commissions, legal fees, and transaction bonuses totaling \$1,437. As of December 31, 2007, accounts receivable pertaining to discontinued operations of \$8,848 were outstanding and are classified in trade receivables. Accounts receivable pertaining to the discontinued operations of Scientific as of the Scientific Closing Date were sold to the Scientific Buyer. As of December 31, 2008, there were no assets related to discontinued operations. Kforce does not currently anticipate incurring any significant costs related to discontinued operations in future periods.

Kforce utilized the cash proceeds from the sale of our Scientific and per-diem Nursing businesses to reduce outstanding borrowings under our Credit Facility as well as to repurchase common stock.

#### *Acceleration of Equity Awards*

Kforce granted 361 Stock Appreciation Rights (“SARS”) and 575 shares of Performance Accelerated Restricted Stock (“PARS”) on January 2, 2008 to Kforce’s Chief Executive Officer and the next four highest compensated executive officers (collectively, “Named Executive Officers” or “NEOs”) in accordance with the 2007 performance bonus plan. These equity awards included a provision whereby their vesting could be accelerated at the discretion of the Compensation Committee should there be a sufficient gain on the disposal of a portion of Kforce’s business. As a result of the dispositions discussed above, Kforce’s Compensation Committee approved the acceleration of the vesting of these equity awards on June 30, 2008, which resulted in the acceleration and recognition of \$6,009 of compensation expense during the quarter ended June 30, 2008. This expense has been classified in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

### **3. Fixed Assets**

Major classifications of fixed assets and related useful lives are summarized as follows:

|  | <u>USEFUL LIFE</u> | <u>DECEMBER 31,</u> |                 |
|--|--------------------|---------------------|-----------------|
|  |                    | <u>2008</u>         | <u>2007</u>     |
| Land   |                    | \$ 1,310            | \$ 1,310        |
| Furniture and equipment                        | 5-7 years          | 7,362               | 7,790           |
| Computer equipment                             | 3-5 years          | 4,563               | 2,866           |
| Leasehold improvements                         | 3-15 years         | 7,392               | 5,878           |
| Capital leases                                 | 3-5 years          | 9,197               | 8,960           |
|  |                    | 29,824              | 26,804          |
| Less accumulated depreciation and amortization |                    | <u>15,137</u>       | <u>13,449</u>   |
|  |                    | <u>\$14,687</u>     | <u>\$13,355</u> |

Depreciation and amortization expense during the years ended December 31, 2008, 2007 and 2006 was \$5,415, \$5,322 and \$4,251, respectively.

#### 4. Income Taxes

The provision for income taxes from continuing operations consists of the following:

|                                 | YEARS ENDED DECEMBER 31, |                  |                  |
|---------------------------------|--------------------------|------------------|------------------|
|                                 | 2008                     | 2007             | 2006             |
| Current:                        |                          |                  |                  |
| Federal                         | \$ 14,951                | \$ 16,515        | \$ 90            |
| State                           | 2,233                    | 1,326            | 18               |
| Deferred                        | (15,256)                 | 6,015            | 19,325           |
| Decrease in valuation allowance | —                        | —                | (883)            |
|                                 | <u>\$ 1,928</u>          | <u>\$ 23,856</u> | <u>\$ 18,550</u> |

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

|   | YEARS ENDED DECEMBER 31, |              |              |
|---|--------------------------|--------------|--------------|
|   | 2008                     | 2007         | 2006         |
| Federal income tax rate                       | 35.0%                    | 35.0%        | 35.0%        |
| State income taxes, net of Federal tax effect | 0.4                      | 3.4          | 4.6          |
| Non-deductible meals and entertainment        | (0.3)                    | 0.9          | 0.7          |
| Non-deductible goodwill impairment            | (37.6)                   | —            | —            |
| Other   | 0.3                      | —            | —            |
| Deferred tax asset valuation allowance        | —                        | —            | (1.6)        |
| Effective tax rate                            | <u>(2.2)%</u>            | <u>39.3%</u> | <u>38.7%</u> |

Deferred income tax assets and liabilities are composed of the following:

|   | DECEMBER 31,     |                 |
|---|------------------|-----------------|
|   | 2008             | 2007            |
| Deferred taxes, current:                            |                  |                 |
| Assets:   |                  |                 |
| Allowance for doubtful accounts and fallouts        | \$ 2,696         | \$ 1,271        |
| Accrued liabilities                                 | 1,673            | 2,033           |
| Federal net operating loss carryforwards            | 1,032            | 2,063           |
| State net operating loss carryforwards              | 447              | 725             |
| Deferred compensation                               | 285              | 359             |
| Stock-based compensation                            | 634              | —               |
| Other   | <u>741</u>       | <u>2,672</u>    |
|   | 7,508            | 9,123           |
| Liabilities:  |                  |                 |
| Prepaid expenses                                    | (663)            | (714)           |
| Other   | <u>(851)</u>     | <u>—</u>        |
| Deferred tax asset, net – current                   | <u>5,994</u>     | <u>8,409</u>    |
| Deferred taxes, non-current:                        |                  |                 |
| Assets:   |                  |                 |
| Deferred compensation                               | 7,257            | 5,751           |
| Stock-based compensation                            | 3,681            | —               |
| Pension and post-retirement benefit plans           | 1,888            | —               |
| Federal net operating loss carryforward             | 386              | 1,418           |
| Amortization of goodwill and intangible assets, net | 999              | —               |
| Other   | <u>526</u>       | <u>308</u>      |
|   | 14,737           | 7,477           |
| Liabilities:  |                  |                 |
| Depreciation of fixed assets                        | (3,887)          | (4,889)         |
| Amortization of goodwill and intangible assets      | <u>(223)</u>     | <u>(9,212)</u>  |
| Deferred tax asset (liability), net – non-current   | <u>10,627</u>    | <u>(6,624)</u>  |
| Net deferred tax asset                              | <u>\$ 16,621</u> | <u>\$ 1,785</u> |

At December 31, 2008, Kforce had federal net operating loss carryforwards (“NOLs”) of approximately \$4,051, which expire in varying amounts through 2024. Further, Kforce has approximately \$7,332 of state tax NOLs at December 31, 2008, which will be carried forward to be offset against future state taxable income. The state tax NOLs expire in varying amounts through 2022. Kforce incurred NOLs for both federal and state income tax purposes in 2004, 2002 and 2001. For accounting purposes, the estimated tax effects of such NOLs, plus other temporary differences, result in current and non-current deferred tax assets. However, a determination must be made that it is “more likely than not” that the NOLs will be utilized for tax purposes, or valuation allowances must be established to offset such assets. There were no valuation allowances recorded against deferred tax assets as of December 31, 2008 or 2007.

Kforce is periodically subject to U.S. Internal Revenue Service audits, as well as state and other local income tax audits, for various tax years. At December 31, 2008 and 2007, we had no outstanding income tax audits with the Internal Revenue Service. As of December 31, 2008, Kforce Global Solutions, a wholly-owned subsidiary of Kforce Government Holdings, Inc., had an ongoing audit of its 2006 tax return with the Philippines Bureau of Inland Revenue. No assessments related to this audit were proposed as of December 31, 2008.

#### *Uncertain Income Tax Positions*

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with SFAS 109, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2008 and 2007 is as follows:

|   | <u>DECEMBER 31,</u> |               |
|---|---------------------|---------------|
|   | <u>2008</u>         | <u>2007</u>   |
| Beginning balance   | \$ 517              | \$ 877        |
| Additions based on tax positions related to the current year  | —                   | —             |
| Reductions based on tax positions related to the current year | —                   | —             |
| Additions for tax positions of prior years                    | 6                   | 14            |
| Reductions for tax positions of prior years                   | —                   | (243)         |
| Settlements   | (323)               | (131)         |
| Ending balance  | <u>\$ 200</u>       | <u>\$ 517</u> |

The entire amount of these unrecognized tax benefits as of December 31, 2008, if recognized, would impact income tax expense pursuant to SFAS 141(R). No significant changes to Kforce’s uncertain tax positions are expected over the next 12-month period.

Kforce recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2008 and 2007, interest and penalties recognized and the cumulative amount accrued as of each year-end were not significant.

Kforce and its subsidiaries file income tax returns in the U. S. federal jurisdiction and various states. Kforce Global Solutions, Inc. 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 2002.

#### **5. Other Assets**

|  | <u>DECEMBER 31,</u> |                 |
|--|---------------------|-----------------|
|  | <u>2008</u>         | <u>2007</u>     |
| Cash surrender value of life insurance policies  | \$14,953            | \$16,527        |
| Capitalized software, net of amortization        | 12,341              | 13,471          |
| Prepaid rent – headquarters, net of amortization | 742                 | 852             |
| Deferred loan costs, net of amortization         | 428                 | 579             |
| Other non-current assets                         | 568                 | 553             |
|  | <u>\$29,032</u>     | <u>\$31,982</u> |

The cash surrender value of company-owned life insurance policies relates to policies maintained by Kforce on certain participants in the deferred compensation plan, which could be used to fund the related obligations (Note 12). In June 2006, the EITF reached a consensus on Issue No. 06-5, *Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* (“EITF 06-5”), which addresses the amount that can be reported as an asset under a company’s life insurance policies based upon the amount that can be realized under the contractual terms on a policy-by-policy basis. We adopted EITF 06-5 in the first quarter of 2007, and it did not have any impact on Kforce’s consolidated financial statements.

Kforce capitalized software purchases as well as direct costs associated with software developed for internal use of approximately \$3,578 and \$8,681 during 2008 and 2007, respectively. The decrease from 2007 was primarily a result of the implementation of additional back office software modules, which went live during August 2007. Accumulated amortization on capitalized software was \$13,125 and \$8,755 as of December 31, 2008 and 2007, respectively. Amortization expense on capitalized software during the years ended December 31, 2008, 2007 and 2006 was \$4,720, \$3,641 and \$2,342, respectively.

## 6. Goodwill and Other Intangible Assets

### *Goodwill*

As discussed in Note 2, Kforce disposed of a portion of its Health and Life Sciences reporting unit during the three months ended June 30, 2008. In accordance with SFAS 142, Kforce performed an interim impairment test of the Health and Life Sciences reporting unit after the disposition. This impairment test did not indicate that impairment existed as of the interim measurement date.

Kforce performed its annual impairment assessment of the carrying value of goodwill as required under SFAS 142 as of December 31, 2008, 2007 and 2006. Upon completion of the December 31, 2007 and 2006 annual impairment assessments, Kforce determined that no impairment was indicated.

In accordance with SFAS 142, we compared the carrying value of each of our four reporting units to their estimated fair value. For the December 31, 2008 impairment test, Kforce estimated the fair value of each of our four reporting units based on a weighting of both the income approach and the market approach. The discounted cash flows for each reporting unit that served as the primary basis for the income approach were based on discrete financial forecasts developed by management for planning purposes and consistent with those distributed within Kforce. Cash flows beyond the discrete forecast period of 5 years were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends for each reporting unit and also considered long-term earnings growth rates for publicly-traded peer companies, as well as the risk-free rate of return. A terminal value growth rate of 3.0% was used for each reporting unit. The income approach valuations included reporting unit cash flow discount rates, representing each reporting unit’s weighted average cost of capital, ranging from 9.5% to 14.6%. The market approach applied pricing multiples derived from publicly-traded guideline companies that are comparable to the respective reporting unit, to determine its value. Kforce utilized invested capital/revenue multiples ranging from 0.10 to 0.80, invested capital/EBITDA multiples ranging from 1.5 to 6.0 and invested capital/EBIT multiples ranging from 2.0 to 8.1 in order to value each of its reporting units under the market approach. Kforce assigned a weighting to each of the invested capital ratios for each reporting unit based on the ratio that is predominately used in the marketplace to value those types of business. The fair value under the market approach included a control premium of 21%, which is an amount we estimate a buyer would be willing to pay in excess of the current market price in order to acquire a controlling interest. The control premium was determined based on a review of comparative market transactions as well as the discounts to net asset values from publicly-traded closed end funds. Publicly available information regarding the market capitalization of Kforce was also considered in assessing the reasonableness of the cumulative fair values of our reporting units.

Upon completion of the December 31, 2008 assessment, Kforce determined that the carrying value of our Technology and Finance and Accounting reporting units exceeded their respective estimated fair values. The fair value for our Health and Life Sciences and Government Solutions reporting units exceeded their respective carrying amounts by 62.9% and 52.5%, respectively. Because indicators of impairment existed for our Technology and Finance and Accounting reporting units, we performed the second step of the test, as required under SFAS 142, to determine the implied fair value of goodwill for each reporting unit.

In accordance with SFAS 142, the implied fair value of goodwill was determined in the same manner utilized to estimate the amount of goodwill recognized in a business combination. As part of the second step of the impairment test performed as of December 31, 2008, we calculated the fair value of certain assets, including non-compete and employment agreements, trade names and customer relationships. The implied fair value of goodwill was measured as the excess of the fair value of each reporting unit over the amounts assigned to its assets and liabilities. The impairment loss for each 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 \$128,429 (\$116,669 for Technology and \$11,760 for Finance and Accounting) in the three months ended December 31, 2008, which represented 87.3% and 59.5% of the Technology and Finance and Accounting goodwill prior to the impairment charge, respectively.

The impairment charge is primarily a result of the impact that the depressed economic environment, including the turmoil in the financial markets, illiquidity in the credit markets, and increasing jobless claims and unemployment rates, had on overall equity values as well as our operations, forecasted cash flows and market capitalization as we progressed through the fourth quarter of 2008. We adjusted our forecasted cash flows and the other assumptions used to calculate the estimated fair value of our reporting units to account for the current macro-economic environment.

The following table contains a disclosure of changes in the carrying amount of goodwill in total and for each reporting unit for the three years ended December 31, 2008:

|   | Technology       | Finance and<br>Accounting | Health and<br>Life Sciences | Government<br>Solutions | Total             |
|---|------------------|---------------------------|-----------------------------|-------------------------|-------------------|
| Balance as of January 1, 2006             | \$ 92,611        | \$ 19,864                 | \$ 12,529                   | \$ —                    | \$ 125,004        |
| Goodwill acquired during the year—PCCI    | 32,814           | —                         | —                           | 7,408                   | 40,222            |
| Goodwill acquired during the year—Bradson | —                | —                         | —                           | 51,908                  | 51,908            |
| Adjustment to Vista Goodwill (a)          | 5,205            | —                         | —                           | —                       | 5,205             |
| Adjustment to Hall Kinion Goodwill        | (32)             | (5)                       | —                           | —                       | (37)              |
| Balance as of December 31, 2006           | \$ 130,598       | \$ 19,859                 | \$ 12,529                   | \$ 59,316               | \$ 222,302        |
| Adjustment to PCCI Goodwill (b)           | 3,597            | —                         | —                           | 813                     | 4,410             |
| Adjustment to Hall Kinion Goodwill        | (503)            | (93)                      | —                           | —                       | (596)             |
| Adjustment to Bradson Goodwill (c)        | —                | —                         | —                           | 11,493                  | 11,493            |
| Balance as of December 31, 2007           | \$ 133,692       | \$ 19,766                 | \$ 12,529                   | \$ 71,622               | \$ 237,609        |
| Disposition of businesses (d)             | —                | —                         | (2,132)                     | —                       | (2,132)           |
| Adjustment to PCCI Goodwill (e)           | (125)            | —                         | —                           | 1,216                   | 1,091             |
| Acquisition of dNovus RDI                 | —                | —                         | —                           | 31,980                  | 31,980            |
| Impairment of Goodwill                    | (116,669)        | (11,760)                  | —                           | —                       | (128,429)         |
| Balance as of December 31, 2008           | <u>\$ 16,898</u> | <u>\$ 8,006</u>           | <u>\$ 10,397</u>            | <u>\$ 104,818</u>       | <u>\$ 140,119</u> |

- (a) The 450 shares of Kforce common stock that were held in escrow were released in accordance with the terms of the agreement, which resulted in an increase to goodwill of \$5,205.
- (b) The adjustment is related to the resolution of certain escrow items in accordance with the terms of the agreement, which was principally the release of escrow to the sellers.
- (c) This adjustment is composed of two principal components: (i) \$5,000 that was released by Kforce out of escrow in accordance with the terms of the agreement and (ii) \$6,462 that resulted from the finalization of the Bradson purchase price allocation. The assumptions used in the purchase price allocation are more fully described in Note 7.
- (d) In accordance with SFAS 142, Kforce allocated \$1,866 to the carrying value of Scientific, which was sold on April 29, 2008, and \$266 to the carrying value of per-diem Nursing, which was sold June 29, 2008, in determining the gain on disposal. This allocation was based on the relative fair values of the Scientific and per-diem Nursing businesses to the portion of the Health and Life Sciences reporting unit that has been retained.
- (e) This is principally composed of an adjustment to recognize the difference between the book and tax basis of certain identifiable intangible assets acquired in the PCCI acquisition.

#### Other Intangible Assets

As of December 31, 2008, Kforce assessed the recoverability of the carrying value of certain of its indefinite-lived trade names and trademarks as a result of a significant change in the manner in which certain of the trade names and trademarks were being utilized. Based upon this evaluation, Kforce determined that the carrying value of certain of its trade names and trademarks acquired in the January 2006 acquisition of PCCI Holdings, Inc. (“PCCI”) was no longer recoverable. As a result, an impairment charge of \$980 was recognized and has been classified in goodwill and intangible asset impairment in the accompanying consolidated statements of operations and comprehensive income. No such impairment charges were recorded for the years ended December 31, 2007 and 2006.

As of December 31, 2008 and 2007, intangible assets, net in the accompanying consolidated balance sheets consists of non-compete agreements, employment agreements, trade names, trademarks, customer relationships, and customer contracts. Indefinite-lived intangible assets, which consist of trade names and trademarks, amounted to \$3,110 and \$4,090 as of December 31, 2008 and 2007, respectively. Customer relationships, customer contracts and other definite-lived intangibles, net of accumulated amortization, amounted to \$7,494 and \$8,186 as of December 31, 2008 and 2007, respectively.

Amortization expense on intangible assets for the three years ended December 31, 2008 was \$3,689, \$5,524 and \$4,885, respectively. As of December 31, 2008 and 2007, accumulated amortization on intangible assets was \$18,632 and \$16,620, respectively. Amortization expense for 2009, 2010, 2011, 2012 and 2013 is expected to be \$2,020, \$1,566, \$1,087, \$984 and \$893, respectively.

## 7. Acquisitions

The results of the acquisitions described in this Note 7 have been included in Kforce's consolidated financial statements since each respective acquisition dates.

### *For the Year Ended December 31, 2008*

On December 2, 2008, Kforce Government Holdings Inc., a Florida corporation (the "Purchaser"), a wholly owned subsidiary of Kforce Inc., acquired all of the issued and outstanding common stock of RDI Systems, Inc. ("RDI"), d/b/a dNovus RDI ("dNovus"), through a Stock Purchase Agreement (the "Agreement"), that was effective as of November 30, 2008, between the Purchaser, Kforce, RDI, each of RDI's shareholders and an individual representative of RDI's shareholders.

Pursuant to the terms of the Agreement, Kforce acquired all of the outstanding stock of RDI for a total cash purchase price of \$38,852 (the "dNovus Purchase Price"). The cash consideration paid by Kforce was composed of Kforce's cash on hand and borrowings under Kforce's Credit Facility. On the closing date, Kforce placed \$3,000 of the total dNovus Purchase Price into escrow to secure dNovus' indemnification obligations and to satisfy certain adjustments to the dNovus Purchase Price, which has been recorded as part of the purchase price.

The following table summarizes the total purchase price, net assets acquired and intangible assets recorded in conjunction with the acquisition:

|                              |                 |
|------------------------------|-----------------|
| Goodwill                     | \$31,980        |
| Acquisition intangibles      | 2,998           |
| Net tangible assets acquired | <u>3,874</u>    |
| Total purchase price         | <u>\$38,852</u> |

The following table summarizes the estimated fair values of the tangible assets acquired and liabilities assumed at the date of acquisition:

|                              |                |
|------------------------------|----------------|
| Cash                         | \$ 578         |
| Accounts receivable          | 5,643          |
| Other assets                 | <u>749</u>     |
| Total assets                 | 6,970          |
| Current liabilities          | <u>3,096</u>   |
| Net tangible assets acquired | <u>\$3,874</u> |

Due primarily to the timing of the acquisition of dNovus and the complexities involved with determining fair value, Kforce has not yet finalized the allocation of the purchase price to the assets acquired and liabilities assumed. However, on a preliminary basis, Kforce has assigned \$2,998 of the excess purchase price to intangible assets, which are believed to include customer contracts, customer relationships, and non-compete and employment agreements. Kforce has used a preliminary estimate of the weighted average useful life of 5 years. Based upon the similarity in nature of the acquisition of Bradson and PCCI, discussed below, and the similarity of the acquired identifiable intangible assets, the preliminary estimate of the excess purchase price allocated to intangible assets was based upon the average amounts Kforce assigned to intangible assets in these acquisitions, after taking into account the net tangible assets acquired. Upon completion of the valuation of the identifiable intangible assets purchased in conjunction with the dNovus acquisition, Kforce will adjust the preliminary amounts recorded for acquired intangibles. In addition, Kforce will revise the future amortization of these intangible assets accordingly.

The \$31,980 of remaining excess purchase price was assigned to goodwill and was allocated to the Government Solutions reporting unit. The significance of the goodwill balance was principally due to the value related to the acquired workforce, which is generally significantly higher with a federal government contractor; as the majority of the workforce possesses valuable high-level security clearances, which are necessary to conduct business with most customers, among other factors.

As a result of this transaction being treated as an asset purchase under Internal Revenue Code Section 338(h)(10), the goodwill is deductible for tax purposes.

***For the Year Ended December 31, 2007***

There were no acquisitions made during the year ended December 31, 2007.

***For the Year Ended December 31, 2006***

***Bradson Corporation***

During October 2006, Kforce entered into and closed a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Bradson Corporation (“Bradson”). Bradson was a privately held company based in Arlington, Virginia, and was a prime contractor of Finance and Accounting professional services to federal government agencies, such as the Department of Defense and the Department of Homeland Security, for over 20 years.

Pursuant to the terms of the Stock Purchase Agreement, Kforce acquired all of the outstanding stock of Bradson for a purchase price of approximately \$73,325 (the “Bradson Purchase Price”). The cash consideration paid by Kforce was composed of Kforce’s cash on hand and borrowings under Kforce’s Credit Facility. On the closing date, Kforce placed \$5,000 of the total Bradson Purchase Price into escrow to secure Bradson’s indemnification obligations and to satisfy certain adjustments to the Bradson Purchase Price. As described in Note 6, the \$5,000 escrow was fully resolved during 2007 resulting in an increase to goodwill.

The following table summarizes the total purchase price, net assets acquired and intangible assets recorded in conjunction with the acquisition (including subsequent goodwill adjustments described in Note 6):

|                              |                 |
|------------------------------|-----------------|
| Goodwill                     | \$63,401        |
| Acquisition intangibles      | 5,735           |
| Net tangible assets acquired | <u>4,189</u>    |
| Total purchase price         | <u>\$73,325</u> |

As of December 31, 2006, Kforce preliminarily assigned \$11,960 of the excess purchase price to customer relationships and contracts, which were being amortized over a weighted average useful life of 10 years. During the fourth quarter of 2007, Kforce finalized its valuation and recorded adjustments to the preliminary allocations. Kforce determined the fair value of the customer relationships to be \$3,911, customer contracts to be \$1,589 and non-compete and employment agreements to be \$235. These adjustments cumulatively resulted in an increase of goodwill of \$6,462. Kforce determined the fair value of customer relationships using an excess earnings method, which was based on the present value of the projected after-tax cash flows using a discount rate of 16.6%, after deducting the fair value of the customer contracts. The fair value of the customer contracts, which had remaining terms of up to five years, was determined by analyzing the present value of the projected after-tax cash flows of each contract using a discount rate of 16.1%.

The \$63,401 of remaining excess purchase price was assigned to goodwill, which was allocated to the Government Solutions reporting unit. The significance of the goodwill balance was partly due to the value related to the acquired workforce. As a result of this transaction being treated as an asset purchase under Internal Revenue Code Section 338(h)(10), the goodwill is deductible for tax purposes.

***PCCI Holdings, Inc. (“PCCI”)***

On January 31, 2006, Kforce acquired PCCI, pursuant to an Agreement and Plan of Merger (the “Merger Agreement”). Under the terms of the Merger Agreement, Kforce acquired all of the outstanding stock of PCCI for \$63,320 (the “PCCI Purchase Price”) paid in cash at closing, subject to certain adjustments as provided for in the Merger Agreement. PCCI was a privately held company based in Treose, Pennsylvania that, through its wholly owned subsidiaries, provided information technology staffing services to commercial clients located throughout the United States and the federal government, which accounted for approximately 35% of PCCI’s revenue.

On the closing date, Kforce placed into escrow \$6,000 of the total PCCI Purchase Price to secure PCCI’s indemnification obligations, and to satisfy certain adjustments to the PCCI Purchase Price. As described in Note 6, the escrow was fully resolved during 2007, resulting in an increase to goodwill.

The following table summarizes the total purchase price, net assets acquired and intangible assets recorded in conjunction with the acquisition (including subsequent goodwill adjustments described in Note 6):

|                              |                        |
|------------------------------|------------------------|
| Goodwill                     | \$45,723               |
| Acquisition intangibles      | 4,393                  |
| Trademarks                   | 3,220                  |
| Net tangible assets acquired | 9,984                  |
| <b>Total purchase price</b>  | <b><u>\$63,320</u></b> |

Kforce determined the fair value of the trademarks to be \$3,220 (an indefinite-lived asset), government customer relationships to be \$2,230, commercial customer relationships to be \$950, government contracts of \$894 and other intangibles of \$319. Kforce determined the fair value of the trademarks using a relief from royalty method, which was based on the present value of the projected cost savings attributable to the ownership of the trademarks. Kforce utilized royalty rates ranging from 0.25% to 1.0% of revenues, which was based on a review of publicly available royalty rates for staffing services, and discount rates ranging from 15.2% to 15.6%. Kforce determined the fair value of the government and commercial customer relationships using an excess earnings method and deducting the value of the government contracts from this amount. The excess earnings method was based on the present value of the projected after-tax cash flows using a discount rate of 14.9% and 16.0% for the government and commercial divisions, respectively. Kforce determined the fair value of the government contracts by analyzing the present value of the projected after-tax cash flows using a discount rate of 13.9%.

The \$45,723 of remaining excess purchase price was assigned to goodwill, of which \$36,286 and \$9,437 were allocated to the Technology and Government Solutions reporting units, respectively. The significance of the goodwill balance was partly due to the value related to the acquired workforce. This goodwill is not deductible for tax purposes.

The following unaudited pro forma consolidated financial information for Kforce gives effect to the acquisition of dNovus, which occurred November 30, 2008, as if it had occurred as of the beginning of each of the years 2008 and 2007. It also gives effect to the acquisitions of Bradson and PCCI, which occurred during 2006, as if they had occurred on January 1, 2006. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisitions occurred on the date indicated, or that may result in the future.

|   | <u>YEARS ENDED DECEMBER 31,</u> |             |             |
|---|---------------------------------|-------------|-------------|
|   | <u>2008</u>                     | <u>2007</u> | <u>2006</u> |
| Revenues                                      | \$1,028,136                     | \$996,519   | \$898,195   |
| Net (loss) income                             | \$ (82,306)                     | \$ 41,049   | \$ 38,212   |
| (Loss) earnings per share – basic             | \$ (2.09)                       | \$ 0.99     | \$ 0.95     |
| (Loss) earnings per share – diluted           | \$ (2.09)                       | \$ 0.97     | \$ 0.91     |
| Weighted average shares outstanding – basic   | 39,471                          | 41,308      | 40,189      |
| Weighted average shares outstanding – diluted | 39,471                          | 42,294      | 42,012      |

## 8. Accounts Payable and Other Accrued Liabilities

Accounts payable and other accrued liabilities consisted of the following:

|                     | <u>DECEMBER 31,</u> |                 |
|---------------------|---------------------|-----------------|
|                     | <u>2008</u>         | <u>2007</u>     |
| Accounts payable    | \$16,806            | \$15,777        |
| Accrued liabilities | 11,278              | 9,445           |
|                     | <u>\$28,084</u>     | <u>\$25,222</u> |

Kforce utilizes a major procurement card provider to pay certain of its corporate trade payables on behalf of Kforce. The balance owed to this provider for these transactions as of December 31, 2008 of \$598 has been included in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. The balance as of December 31, 2007 was insignificant. The cash flows associated with these transactions have been presented as a financing activity in the accompanying consolidated statement of cash flows.

During December 2008, Kforce committed to pledge \$500 to FEZZIWIG WWJD FOUNDATION, INC. (the "Foundation"), a public charity, which amount has been recorded in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. The Foundation was formed in 2004 with the purpose of providing assistance to other qualified charitable organizations or qualified individuals for educational assistance or who are in immediate financial need. Various employees of Kforce serve on the Board of Directors of the Foundation including David L. Dunkel, Kforce's Chairman and Chief Executive Officer.

## 9. Accrued Payroll Costs

Accrued payroll costs consisted of the following:

|                                  | DECEMBER 31,    |                 |
|----------------------------------|-----------------|-----------------|
|                                  | 2008            | 2007            |
| Payroll and benefits             | \$41,150        | \$40,648        |
| Payroll taxes                    | 4,753           | 7,045           |
| Accrued health insurance payable | 3,035           | 2,615           |
| Workers' compensation            | 2,372           | 3,305           |
|                                  | <u>\$51,310</u> | <u>\$53,613</u> |

## 10. Credit Facility

On October 2, 2006, Kforce entered into a Second Amended and Restated Credit Agreement, with a syndicate led by Bank of America, N.A. (the "Credit Facility"). Kforce's maximum borrowings under the Credit Facility are \$140,000, which includes a revolving loan tranche of up to \$125,000 (the "Revolving Loan Amount") and a \$15,000 sub-limit for letters of credit. In April 2007, an additional revolving loan tranche (the "Additional Availability Amount") that allowed up to \$25,000 was retired by Kforce.

Borrowings under the Credit Facility are limited to 85% of eligible accounts receivable less certain minimum availability reserves and bear interest at a rate of LIBOR plus 1.25% or the prime rate. 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 1.25% per year of the total amount of 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 equal to 0.25% of the average unused balance on a monthly basis. Borrowings under the Credit Facility are principally secured by our accounts receivable but are also secured by substantially all of the assets of Kforce. Under the Credit Facility, Kforce is required to maintain a minimum fixed charge coverage ratio of 1.25 to 1.00 in the event that it is unable to maintain minimum availability under the Credit Facility of \$15,000. As of December 31, 2008, Kforce had availability under the Credit Facility of \$53,694; therefore, the minimum fixed charge coverage ratio was not applicable. Kforce believes that it will be able to maintain the minimum availability requirement; however, in the event that Kforce is unable to do so, the goodwill and other intangible asset impairment charge would result in Kforce failing the fixed charge coverage ratio under its current definition, which would constitute an event of default. Kforce believes the likelihood of default is remote. The Credit Facility expires during November 2011.

## 11. Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

|   | DECEMBER 31,    |                 |
|---|-----------------|-----------------|
|   | 2008            | 2007            |
| Deferred compensation plan (Note 12)                    | \$11,497        | \$13,612        |
| Accrued rent  | 2,818           | 2,340           |
| Supplemental executive retirement plan (Note 12)        | 3,489           | 1,718           |
| Supplemental executive retirement health plan (Note 12) | 638             | 416             |
| Other   | 770             | 392             |
|   | <u>\$19,212</u> | <u>\$18,478</u> |

Kforce has applied the provisions of FASB Statement No. 13, *Accounting for Leases* ("SFAS 13"), to account for lease arrangements that contain scheduled rent escalations by recognizing rent expense on a straight-line basis over the lease term. The difference between the straight-line rent expense and the cash payment made is recorded as a rental obligation, which amounted to \$2,449 and \$2,299 as of December 31, 2008 and 2007, respectively, and is classified within accrued rent in the table above.

## **12. Employee Benefit Plans**

### ***Alternative Long-Term Incentive***

During February 2006, Kforce granted to certain named executive officers an alternative long-term incentive (the "ALTI"). The terms of the ALTI grant stated that the ALTI vested fully on January 2, 2008, and the total ALTI increased or decreased in value equal to the increase or decrease in the price of Kforce's common stock over the period from January 1, 2006 to January 2, 2008. As a result of the anticipated changes in the fair value of the obligation, Kforce determined the fair value as of each reporting period using a Monte Carlo simulation and amortized this value over the vesting period of February 22, 2006 to January 2, 2008. The Monte Carlo simulation was computed using a risk-free interest rate of 5.01% and a volatility factor of 42.78%. Kforce recorded compensation expense in the amount of \$641 and \$867 for the years ended December 31, 2007 and 2006, respectively. Kforce recorded an obligation of \$1,508 as of December 31, 2007, which was classified in other current debt in the consolidated balance sheet. The obligation was paid to the named executive officers on January 2, 2008.

### ***401(k) Savings Plans***

Kforce has a qualified defined contribution 401(k) Retirement Savings Plan (the "Kforce 401(k) Plan") covering substantially all Kforce Inc. employees. Employer matching contributions are discretionary and are funded annually as approved by the Board of Directors. 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") to cover substantially all of the legacy Bradson employees. During 2007, PCCI and Bradson were merged into Kforce Government Solutions ("KGS"), which adopted the Government 401(k) Plan. Employer matching contributions are discretionary and are funded annually as approved by the Board of Directors. Assets of the Government 401(k) Plan are held in trust for the sole benefit of employees and/or their beneficiaries. dNovus had a qualified defined contribution 401(k) Retirement Savings Plan (the "dNovus 401(k) Plan") covering substantially all dNovus employees, which was terminated on December 1, 2008. Legacy dNovus employees will be eligible to enroll in the Government 401(k) Plan during 2009.

Kforce accrued matching contributions of \$1,802, \$1,179 and \$893 for the above plans' years ended December 31, 2008, 2007 and 2006, respectively. The Kforce 401(k) Plan and Government 401(k) Plan held a combined 456 and 450 shares of Kforce's common stock as of December 31, 2008 and 2007. These shares represented approximately 1% of Kforce's outstanding shares as of each of the two years ended December 31, 2008. The dNovus 401(k) Plan did not hold any shares of Kforce's common stock.

### ***Employee Stock Purchase Plan***

Kforce has an Employee Stock Purchase Plan ("Plan") which allows all employees to purchase Kforce's common stock at a 5% discount from its market price at the end of a rolling three-month purchase period and without commissions on the purchases. Employees are eligible to participate in the plan as of the next plan enrollment date following their date of hire. Pursuant to the Plan, Kforce issued 96, 86, and 172 shares of common stock at average purchase prices of \$8.82, \$12.80 and \$9.30 per share during the years ended December 31, 2008, 2007, and 2006, respectively. These shares were transferred to the Plan from 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 "KGS 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, 2008 and 2007, amounts included in accounts payable and other accrued liabilities related to the deferred compensation plan totaled \$683 and \$851, respectively. Amounts included in other long-term liabilities related to the deferred compensation plan totaled \$11,497 and \$13,612 as of December 31, 2008 and 2007, respectively. Kforce has insured the lives of certain participants in the deferred compensation plan to assist in the funding of the deferred compensation liability. The cash surrender values of these company-owned life insurance policies, \$14,953 and \$16,527 at December 31, 2008 and 2007, respectively, are classified in other assets (Note 5). Compensation expense of \$1,274, \$857 and \$242 was recognized for the plan for the years ended December 31, 2008, 2007, and 2006, respectively.

### ***Foreign Pension Plan***

Kforce has a foreign defined benefit pension plan. Aggregate projected annual benefit payments (undiscounted) are estimated to be \$8,844, none of which are expected to be paid prior to 2010. This plan had an insignificant effect on the accompanying consolidated financial statements for the three years ended December 31, 2008.

### ***Supplemental Executive Retirement Plan***

Effective December 31, 2006, Kforce implemented a Supplemental Executive Retirement Plan (the “SERP”) for the benefit of certain named 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 the named 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 is funded entirely by Kforce, and benefits are taxable to the 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 executive officer earned the highest salary and bonus during the last ten 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 December 31, 2006. For purposes of the measurement of the benefit obligation as of December 31, 2008, Kforce has assumed that all participants will elect to take the lump sum present value option.

#### ***Actuarial Assumptions***

The following represents the actuarial assumptions used to determine the actuarial present value of projected benefit obligations at:

|  | <b>DECEMBER 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2008</b>         | <b>2007</b> |
| Discount rate                                    | 6.00%               | 5.75%       |
| Expected long-term rate of return on plan assets | —                   | —           |
| Rate of future compensation increase             | 4.00%               | 2.00%       |

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

|  | <b>DECEMBER 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2008</b>         | <b>2007</b> |
| Discount rate                                    | 6.13%               | 5.75%       |
| Expected long-term rate of return on plan assets | —                   | —           |
| Rate of future compensation increase             | 3.00%               | 2.00%       |

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. During 2008, this rate was also compared against the Citigroup Pension Discount Curve and Liability Index to ensure the rate used is reasonable. 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.

Due to the SERP being unfunded as of December 31, 2008 and 2007, it is not necessary for Kforce to determine the expected long-term rate of return on plan assets. Once funded, Kforce will determine the expected long-term rate of return on plan assets by determining the composition of the asset portfolio, the historical long-term investment performance and the current market conditions.

The assumed rate of future compensation increases is based on a combination of factors, including the historical compensation increases for each named executive officer and future target compensation levels for each named executive taking into account the named 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. As of June 30, 2008, Kforce evaluated the continued propriety of certain assumptions in light of the current operating environment and determined that more recent data became available that necessitated the need for a remeasurement of the benefit obligation in accordance with SFAS 87.

#### *Net Periodic Benefit Cost*

The following represents the components of net periodic benefit cost for the years ended:

|                                | <u>DECEMBER 31,</u> |                |
|--------------------------------|---------------------|----------------|
|                                | <u>2008</u>         | <u>2007</u>    |
| Service cost                   | \$2,316             | \$1,714        |
| Interest cost                  | 140                 | —              |
| Expected return on plan assets | —                   | —              |
| Amortization of actuarial loss | 13                  | —              |
| Net periodic benefit cost      | <u>\$2,469</u>      | <u>\$1,714</u> |

#### *Changes in Benefit Obligation*

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

|   | <u>DECEMBER 31,</u> |                |
|---|---------------------|----------------|
|   | <u>2008</u>         | <u>2007</u>    |
| Projected benefit obligation, beginning                   | \$1,718             | \$ 4           |
| Service cost  | 2,316               | 1,714          |
| Interest cost   | 140                 | —              |
| Actuarial experience and changes in actuarial assumptions | (685)               | —              |
| Projected benefit obligation, ending                      | <u>\$3,489</u>      | <u>\$1,718</u> |

None of the above benefit obligation was funded as of December 31, 2008. The projected benefit obligation above is classified in other long-term liabilities in the accompanying consolidated balance sheets. The present value of the accumulated benefit obligation as of December 31, 2008 and 2007 is \$2,821 and \$1,464, respectively.

#### *Contributions*

There is no requirement for Kforce to fund the SERP and, as a result, no contributions were made to the plan during the years ended December 31, 2008 and 2007. Kforce currently anticipates funding the SERP during the year ending December 31, 2009.

#### *Estimated Future Benefit Payments*

Benefit payments by the SERP, which reflect anticipated future service of the named executive officers, are expected to be paid (undiscounted) as follows:

|            | <u>PROJECTED ANNUAL<br/>BENEFIT PAYMENTS</u> |
|------------|--|
| 2009       | \$ —   |
| 2010       | —  |
| 2011       | —  |
| 2012       | —  |
| 2013       | 7,378  |
| 2014-2018  | —  |
| Thereafter | 21,069                                       |

### Supplemental Executive Retirement Health Plan

Effective April 20, 2007, the Board of Directors approved the Supplemental Executive Retirement Health Plan (“SERHP”) to provide postretirement health and welfare benefits to certain executives. The vesting and eligibility requirements mirror that of the SERP, and no advance funding is required by Kforce or the participants. Consistent with the SERP, none of the benefits earned are attributable to services provided prior to the effective date.

#### Actuarial Assumptions

The following represents the actuarial assumptions used to determine the present value of the postretirement benefit obligation at:

|  | <u>DECEMBER 31,</u> |             |
|--|---------------------|-------------|
|  | <u>2008</u>         | <u>2007</u> |
| Discount rate                                    | 5.50%               | 6.00%       |
| Expected long-term rate of return on plan assets | —                   | —           |

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

|  | <u>DECEMBER 31,</u> |             |
|--|---------------------|-------------|
|  | <u>2008</u>         | <u>2007</u> |
| Discount rate                                    | 6.00%               | 6.00%       |
| Expected long-term rate of return on plan assets | —                   | —           |

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 compared against the Citigroup Pension Discount Curve and Liability Index to ensure the rate used is reasonable.

Due to the SERHP being unfunded as of December 31, 2008 and 2007, it is not necessary for Kforce to determine the expected long-term rate of return on plan assets. Once funded, Kforce will determine the expected long-term rate of return on plan assets by determining the composition of the asset portfolio, the historical long-term investment performance and current market conditions.

The following represents the assumed health care cost trend rates used to determine the postretirement benefit obligations for the years ended:

|   | <u>DECEMBER 31,</u> |             |
|---|---------------------|-------------|
|   | <u>2008</u>         | <u>2007</u> |
| Health care cost trend rate assumed for next year                             | 10.00%              | 11.00%      |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | 5.00%               | 6.00%       |
| Year that the rate reaches the ultimate trend rate                            | 2013                | 2017        |

Assumed health care cost trend rates can have a significant effect on the amounts reported for the SERHP. A one percent change in assumed health care cost trend rates would have the following effects:

|  | <u>One Percentage Point</u> |                 |
|--|-----------------------------|-----------------|
|  | <u>Increase</u>             | <u>Decrease</u> |
| Effect of total of service and interest cost | \$ 97                       | \$ (76)         |
| Effect on postretirement benefit obligation  | \$ 148                      | \$ (116)        |

#### Net Periodic Postretirement Benefit Cost

The following represents the components of net periodic postretirement benefit cost for the years ended:

|                                | <u>DECEMBER 31,</u> |               |
|--------------------------------|---------------------|---------------|
|                                | <u>2008</u>         | <u>2007</u>   |
| Service cost                   | \$ 382              | \$ 416        |
| Interest cost                  | 20                  | —             |
| Expected return on plan assets | —                   | —             |
| Amortization of actuarial loss | —                   | —             |
| Net periodic benefit cost      | <u>\$ 402</u>       | <u>\$ 416</u> |

### Changes in Postretirement Benefit Obligation

The following represents the changes in the postretirement benefit obligation for the years ended:

|   | DECEMBER 31,  |              |
|---|---------------|--------------|
|   | 2008          | 2007         |
| Accumulated postretirement benefit obligation, beginning  | \$ 416        | \$—          |
| Service cost  | 382           | 416          |
| Interest cost   | 20            | —            |
| Actuarial experience and changes in actuarial assumptions | (180)         | —            |
| Accumulated postretirement benefit obligation, ending     | <u>\$ 638</u> | <u>\$416</u> |

None of the above benefit obligation was funded as of December 31, 2008. The accumulated postretirement benefit obligation above has been classified in other long term liabilities in the accompanying consolidated balance sheets.

### Estimated Future Benefit Payments

Benefit payments by the SERHP, which reflect anticipated future service of the named executive officers, are expected to be paid (undiscounted) as follows:

|            | PROJECTED ANNUAL<br>BENEFIT PAYMENTS |
|------------|--------------------------------------|
| 2009       | \$ —                                 |
| 2010       | —                                    |
| 2011       | —                                    |
| 2012       | —                                    |
| 2013       | 11                                   |
| 2014-2018  | 75                                   |
| Thereafter | 2,338                                |

Pre-tax amounts recognized in accumulated other comprehensive income as of December 31, 2008 that have not yet been recognized as components of net periodic benefit cost for all of Kforce's defined benefit pension and postretirement plans, including an insignificant foreign defined benefit plan, consist entirely of actuarial gains and losses arising from the actuarial experience of the plans and changes in actuarial assumptions, as follows:

|                    | Pensions      | Postretirement |
|--------------------|---------------|----------------|
| Net actuarial gain | <u>\$ 519</u> | <u>\$ 180</u>  |

The estimated portion of the net actuarial gain above that is expected to be recognized as a component of net periodic benefit cost in the year ending December 31, 2009 is shown below:

|                               | Pensions      | Postretirement |
|-------------------------------|---------------|----------------|
| Recognized net actuarial gain | <u>\$ 258</u> | <u>\$ 180</u>  |

The estimate portion expected to be recognized in 2009 includes the recognition of a curtailment gain that resulted from the termination of one of the five named executive officers that are participants in the SERP and SERHP. The curtailment gains expected to be recognized in accordance with SFAS 88 for the SERP and SERHP are \$279 and \$180, respectively.

### 13. Stock Incentive Plans

In 1994, Kforce established the Employee Incentive Stock Option Plan that allows the issuance of Incentive Stock Options and in 1996 amended this plan to allow for the issuance of Nonqualified Stock Options, Stock Appreciation Rights and Restricted Stock. The Employee Incentive Stock Option Plan expired in March of 2005.

During 1995, Kforce established the Non-Employee Director Stock Option Plan, which authorized the issuance to non-employee directors of options to purchase common stock. The Non-Employee Director Stock Option Plan expired in October of 2005.

On June 20, 2006, the shareholders approved the 2006 Stock Incentive Plan, which was previously adopted by the Board of Directors on April 28, 2006, and which was subject to shareholder approval. The aggregate number of shares of common stock that may be subject to awards under the 2006 Stock Incentive Plan, subject to adjustment upon a change in capitalization, is 3,000. The 2006 Stock Incentive Plan allows for the issuance of stock options, stock appreciation rights (“SARs”), performance-accelerated restricted stock (“PARS”) and restricted stock (“RS”), subject to share availability. The 2006 Stock Incentive Plan terminates on April 28, 2016.

Vesting of equity instruments issued under the 2006 Stock Incentive Plan is determined on a grant-by-grant basis. Options expire at the end of ten years from the date of grant, and Kforce issues new shares upon exercise of options.

### Stock Options

The following table presents the activity under the each of the stock incentive plans discussed above for the three years ended December 31, 2008:

|   | Employee<br>Incentive<br>Stock<br>Option<br>Plan | Non-<br>Employee<br>Director<br>Stock<br>Option<br>Plan | Stock<br>Incentive<br>Plan | Total   | Weighted<br>Average<br>Exercise<br>Price Per<br>Share | Weighted<br>Average<br>Grant<br>Date Fair<br>Value | Total<br>Intrinsic<br>Value of<br>Options<br>Exercised |
|---|--|---|----------------------------|---------|---|--|--|
| Outstanding as of December 31, 2005     | 5,999  | 190   | —                          | 6,189   | \$ 9.28   |  |  |
| Granted                                 | —  | —   | 60                         | 60      | \$ 12.20  | \$ 8.06  |  |
| Exercised                               | (1,694)  | (47)  | —                          | (1,741) | \$ 5.99   |  | \$14,624   |
| Forfeited/Cancelled                     | (144)  | —   | —                          | (144)   | \$ 11.42  |  |  |
| Outstanding as of December 31, 2006     | 4,161  | 143   | 60                         | 4,364   | \$ 10.56  |  |  |
| Granted                                 | —  | —   | 53                         | 53      | \$ 13.77  | \$ 9.53  |  |
| Exercised                               | (534)  | (2)   | —                          | (536)   | \$ 7.68   |  | \$ 4,068   |
| Forfeited/Cancelled                     | (25)   | (30)  | —                          | (55)    | \$ 14.08  |  |  |
| Outstanding as of December 31, 2007     | 3,602  | 111   | 113                        | 3,826   | \$ 10.96  |  |  |
| Granted                                 | —  | —   | 35                         | 35      | \$ 9.13   | \$ 6.47  |  |
| Exercised                               | (371)  | —   | —                          | (371)   | \$ 6.98   |  | \$ 1,521   |
| Forfeited/Cancelled                     | (298)  | (50)  | (40)                       | (388)   | \$ 20.25  |  |  |
| Outstanding as of December 31, 2008     | 2,933  | 61  | 108                        | 3,102   | \$ 10.26  |  |  |
| Unvested awards as of December 31, 2008 | —  | —   | 35                         | 35      |   |  |  |
| Exercisable at December 31, 2008        | 2,933  | 61  | 73                         | 3,067   | \$ 10.27  |  |  |

Kforce uses the Black-Scholes option pricing model to derive the fair value of stock options granted. The following assumptions were used in the valuation of options granted during the years ended December 31:

|                         | 2008    | 2007    | 2006          |
|-------------------------|---------|---------|---------------|
| Expected term (a)       | 6.7 yrs | 6.3 yrs | 3.0 – 6.9 yrs |
| Expected volatility (b) | 75.4%   | 73%     | 71% – 74%     |
| Expected dividends (c)  | 0%      | 0%      | 0%            |
| Risk-free rate (d)      | 3.7%    | 4.5%    | 4.9% – 5.0%   |

- Weighted-average exercise terms are based upon historical exercise behavior for Kforce stock options and may vary based upon the applicable employee group exercise patterns.
- Volatility is based upon the historical volatility of Kforce’s common stock during a term commensurate with the expected term of the option.
- The dividend yield is based upon Kforce not historically paying dividends on its common stock.
- The risk-free rate is based upon treasury yields with similar terms.

The following table summarizes information about employee and director stock options issued under all of the plans mentioned above as of December 31, 2008:

| <u>Range of Exercise Prices</u> | <u>Number of Awards (#)</u> | <b>OUTSTANDING</b>                                       |   |                              |
|---------------------------------|-----------------------------|--|---|------------------------------|
|                                 |                             | <u>Weighted Average Remaining Contractual Term (Yrs)</u> | <u>Weighted Average Exercise Price (\$)</u> | <u>Total Intrinsic Value</u> |
| \$0.00 - \$4.21                 | 139                         | 2.71   | \$ 3.62                                     | \$ 563                       |
| \$4.22 - \$6.51                 | 426                         | 2.96   | 5.27  | 1,027                        |
| \$6.52 - \$10.95                | 1,397                       | 4.41   | 9.54  | 106                          |
| \$10.96 - \$15.25               | 1,140                       | 2.20   | 13.80                                       | —                            |
|                                 | <u>3,102</u>                | <u>3.32</u>  | <u>10.26</u>                                | <u>\$1,696</u>               |

| <u>Range of Exercise Prices</u> | <u>Number of Awards (#)</u> | <b>EXERCISABLE</b>                                       |   |                              |
|---------------------------------|-----------------------------|--|---|------------------------------|
|                                 |                             | <u>Weighted Average Remaining Contractual Term (Yrs)</u> | <u>Weighted Average Exercise Price (\$)</u> | <u>Total Intrinsic Value</u> |
| \$0.00 - \$4.21                 | 139                         | 2.71   | \$ 3.62                                     | \$ 563                       |
| \$4.22 - \$6.51                 | 426                         | 2.96   | 5.27  | 1,027                        |
| \$6.52 - \$10.95                | 1,362                       | 4.27   | 9.55  | 106                          |
| \$10.96 - \$15.25               | 1,140                       | 2.20   | 13.80                                       | —                            |
|                                 | <u>3,067</u>                | <u>3.25</u>  | <u>10.27</u>                                | <u>\$1,696</u>               |

During the years ended December 31, 2008 and 2007, Kforce recognized compensation expense of \$455 and \$325, respectively. As of December 31, 2008, total unrecognized compensation cost related to non-vested options was \$128, which is expected to be recognized over a weighted average period of 0.6 years. All unvested awards as of December 31, 2008 are expected to vest in the future.

#### *Stock Appreciation Rights*

Although no such requirement exists, SARs are generally granted on the first trading day of each year to Kforce's named executive officers based on the extent by which annual long-term incentive performance goals, which are established by Kforce's Compensation Committee during the first 90 days of the year of performance, are certified by the Compensation Committee as having been met. SARs granted during the years ended December 31, 2008 and 2007 will cliff vest 100% three years from the date of issuance. However, vesting is accelerated if Kforce's stock price exceeds the stock price at the date of grant by 30% for a period of 10 trading days, or if the Compensation Committee has determined that the criteria for acceleration are satisfied. The SARs granted during the year ended December 31, 2008 also contained a performance-based acceleration feature that related to the disposition of a portion of the business at a sufficient gain, which was subject to Compensation Committee approval. As was previously discussed, on June 30, 2008 the Compensation Committee approved the acceleration of the vesting of the SARs that were granted in 2008 as a result of the sale of Kforce's Scientific and per-diem Nursing businesses, and as a result, Kforce accelerated the previously unrecognized compensation expense associated with these awards.

The following table presents the activity for the two years ended December 31, 2008:

|   | <u>Number of SARs</u> | <u>Weighted Average Exercise Price Per SAR</u> | <u>Weighted Average Grant Date Fair Value</u> | <u>Total Intrinsic Value of SARs Exercised</u> |
|---|-----------------------|--|---|--|
| Outstanding as of December 31, 2006     | —                     | —  | —   | —  |
| Granted                                 | 469                   | \$ 12.66                                       | \$ 7.53                                       | —  |
| Exercised                               | —                     | —  | —   | —  |
| Forfeited/Cancelled                     | —                     | —  | —   | —  |
| Outstanding as of December 31, 2007     | 469                   | \$ 12.66                                       | —   | —  |
| Granted                                 | 361                   | \$ 8.94  | \$ 5.30                                       | —  |
| Exercised                               | —                     | —  | —   | —  |
| Forfeited/Cancelled                     | —                     | —  | —   | —  |
| Outstanding as of December 31, 2008     | <u>830</u>            | \$ 11.04                                       | —   | —  |
| Unvested awards as of December 31, 2008 | <u>469</u>            | —  | —   | —  |
| Exercisable at December 31, 2008        | <u>361</u>            | \$ 8.94  | —   | —  |

The valuation of the SARs was based upon a Black-Scholes valuation model. The following assumptions were used in the valuation of SARs granted during the years ended December 31:

|                         | 2008     | 2007     |
|-------------------------|----------|----------|
| Expected term (a)       | 5.61 yrs | 4.96 yrs |
| Expected volatility (b) | 62.7%    | 67%      |
| Expected dividends (c)  | 0%       | 0%       |
| Risk-free rate (d)      | 3.5%     | 4.5%     |

- (a) The expected term for SARs is composed of a derived service period, which is determined using a lattice model; and a weighted average holding period, which is based on upon historical behavior and may vary from assumptions used for stock options based upon the applicable employee group patterns.
- (b) Volatility is based upon the historical volatility of Kforce's common stock during a term commensurate with the expected term of the option.
- (c) The dividend yield is based upon Kforce not historically paying dividends on its common stock.
- (d) The risk-free rate is based upon treasury yields with similar terms.

Compensation expense attributable to SARs is recognized on a straight-line basis over the derived service period. During the years ended December 31, 2008 and 2007, Kforce recorded compensation expense of \$3,384 and \$1,985, respectively, which includes the compensation expense resulting from the June 30, 2008 acceleration. There is no unrecognized compensation expense related to SARs as of December 31, 2008.

#### *Performance Accelerated Restricted Stock*

Although no requirement exists, PARS are generally granted during the first quarter of each year to Kforce's named executive officers and certain members of Kforce's executive committee (which is not a committee of the Board of Directors). The grants to Kforce's named executive officers 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 90 days of the year of performance, are certified by the Compensation Committee as having been met. PARS granted during the years ended December 31, 2008 and 2007 have a graded six-year vesting period. However, vesting is accelerated if Kforce's stock price exceeds the stock price at the date of grant by 50% for a period of 10 trading days, or if the Compensation Committee has determined that the criteria for acceleration are satisfied. The PARS granted during the year ended December 31, 2008 also contained a performance-based acceleration feature that related to the disposition of a portion of the business at a sufficient gain, which was subject to Compensation Committee approval. As was previously discussed, on June 30, 2008, the Compensation Committee approved the acceleration of the vesting of the PARS that were granted in 2008 as a result of the sale of Kforce's Scientific and per-diem Nursing businesses. As a result, Kforce accelerated the previously unrecognized compensation expense associated with these awards.

The following table presents the activity for the two years ended December 31, 2008:

|                                     | Number of<br>PARS | Weighted Average<br>Grant Date<br>Fair Value |
|-------------------------------------|-------------------|--|
| Outstanding as of December 31, 2006 | —                 | —  |
| Granted                             | 309               | \$ 13.33                                     |
| Vested                              | —                 | —  |
| Forfeited                           | (10)              | \$ 13.92                                     |
| Outstanding as of December 31, 2007 | 299               | \$ 13.31                                     |
| Granted                             | 575               | \$ 8.94                                      |
| Vested                              | (575)             | \$ 8.94                                      |
| Forfeited                           | (2)               | \$ 13.92                                     |
| Outstanding as of December 31, 2008 | <u>297</u>        | \$ 13.30                                     |

The valuation of PARS is determined by its intrinsic value (as if the underlying shares were vested and issued) on the grant date, which is amortized on a straight-line basis over a derived service period, which is determined using a lattice model.

During the years ended December 31, 2008 and 2007, Kforce recorded compensation expense of approximately \$6,055 and \$959, respectively, which includes the compensation expense resulting from the June 30, 2008 acceleration. As of December 31, 2008, there was \$1,797 of unrecognized compensation expense related to PARS which will be recognized over a weighted average remaining period of 1.85 years.

During the year ended December 31, 2008, certain executives elected to satisfy minimum tax withholding obligations related to the vesting of the PARS by directing Kforce to withhold 104 of these shares. Kforce accounts for these shares as treasury stock until they have been formally retired and have been reflected as such in the accompanying consolidated financial statements.

#### *Restricted Stock*

Although no requirement exists, RS is generally granted during the first quarter of each year to Kforce's named executive officers and certain members of Kforce's executive committee. The grants to Kforce's named executive officers 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 90 days of the year of performance, are certified by the Compensation Committee as having been met. RS granted during the years ended December 31, 2008 and 2007 had vesting terms ranging from one year to six years.

The following table presents the activity for the three years ended December 31, 2008:

|                                     | Number of RS | Weighted Average<br>Grant Date<br>Fair Value |
|-------------------------------------|--------------|--|
| Outstanding as of December 31, 2005 | 305          | \$ 8.08                                      |
| Vested                              | (298)        | \$ 8.28                                      |
| Outstanding as of December 31, 2006 | 7            | \$ 5.21                                      |
| Granted                             | 80           | \$ 13.33                                     |
| Vested                              | —            | —  |
| Forfeited                           | (7)          | \$ 5.21                                      |
| Outstanding as of December 31, 2007 | 80           | \$ 13.33                                     |
| Granted                             | 517          | \$ 8.31                                      |
| Vested                              | —            | —  |
| Forfeited                           | (19)         | \$ 9.55                                      |
| Outstanding as of December 31, 2008 | <u>578</u>   | <u>\$ 8.96</u>                               |

The valuation of RS is determined by its intrinsic value (as if the underlying shares were vested and issued) on the grant date, which is amortized on a straight-line basis over the service period.

During the years ended December 31, 2008, 2007, and 2006, Kforce recorded compensation expense of approximately \$1,850, \$161 and \$1,094, respectively. As of December 31, 2008, there was \$2,592 of unrecognized compensation expense related to RS, which will be recognized over a weighted average remaining period of 4.55 years.

Pursuant to the adoption of SFAS 123R on January 1, 2006 under the modified prospective transition method, Kforce reclassified unearned compensation of \$1,094 to additional paid-in capital.

## **14. 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. 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:

|                           | 2009            | 2010           | 2011           | 2012           | 2013           | Thereafter      | Total           |
|---------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| <b>Capital Leases</b>     |                 |                |                |                |                |                 |                 |
| Present value of payments | \$ 1,917        | \$1,156        | \$ 584         | \$ 450         | \$ 104         | \$ —            | \$ 4,211        |
| Interest                  | 246             | 124            | 147            | 30             | —              | —               | 547             |
| Capital Lease Payments    | \$ 2,163        | \$1,280        | \$ 731         | \$ 480         | \$ 104         | \$ —            | \$ 4,758        |
| <b>Operating Leases</b>   |                 |                |                |                |                |                 |                 |
| Facilities                | \$ 9,118        | \$7,044        | \$5,206        | \$3,843        | \$3,543        | \$ 8,094        | \$36,848        |
| Furniture and equipment   | 281             | 155            | 69             | 27             | 2              | —               | 534             |
| Total Operating Leases    | \$ 9,399        | \$7,199        | \$5,275        | \$3,870        | \$3,545        | \$ 8,094        | \$37,382        |
| <b>Total Leases</b>       | <u>\$11,562</u> | <u>\$8,479</u> | <u>\$6,006</u> | <u>\$4,350</u> | <u>\$3,649</u> | <u>\$ 8,094</u> | <u>\$42,140</u> |

The present value of the minimum lease payments for capital lease obligations has been classified in other current debt and long-term debt – other according to their respective maturities. Rental expense under operating leases was \$10,222, \$10,746 and \$10,646 for the years ended December 31, 2008, 2007 and 2006, respectively.

### ***Purchase Commitments***

Kforce has entered into various commitments including, among others, a system integration and implementation project within our Government Solutions segment, a resort to host our annual employee incentive trip during 2009, and data center fees for certain of our information technology applications. As of December 31, 2008, these commitments amounted to approximately \$6,969 and are expected to be paid as follows: \$3,199 in 2009; \$2,599 in 2010; \$961 in 2011, and \$105 in each of 2012 and 2013.

### ***Letters of Credit***

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2008, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling \$3,593, and for facility lease deposits totaling approximately \$1,484.

### ***Litigation***

In the ordinary course of its business, Kforce is, from time to time, threatened with or named as a defendant in various lawsuits, including discrimination, harassment and other similar allegations. Kforce maintains insurance in such amounts and with such coverage and deductibles as management believes is reasonable. The principal risks that Kforce insures against are workers' compensation, personal injury, bodily injury, property damage, professional malpractice, directors' and officers' liability, errors and omissions, employment practices liability and fidelity losses.

The state of California is examining the unemployment tax rates of two Kforce subsidiaries for the years 2003 through 2006. On February 17, 2009, Kforce provided documents and testimony in response to investigative subpoenas served by the California Employment Development Department ("EDD"). EDD has not indicated what action, if any, it intends to take as a result of its investigation. Revisions of the rates during the period under examination could lead to assessments, if any, of up to \$2.75 million. Kforce believes that it has meritorious defenses to any potential assessments and if assessments are levied, Kforce intends to vigorously contest same through applicable administrative and/or judicial processes. At this stage, it is not possible to predict the outcome from the investigation, or the amount of any assessment, and accordingly, no amounts relating to same have been provided for in the consolidated financial statements.

Kforce is not aware of any litigation that would reasonably be expected to have a material adverse effect on its results of operations, cash flows or financial condition.

### ***Employment Agreements***

Kforce has entered into employment agreements with certain executive officers and managers that provide for minimum compensation, salary and continuation of certain benefits for a six-month to three-year period under certain circumstances. 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 employee is terminated without good cause by the employer or for good reason by the employee. These agreements contain certain post-employment restrictive covenants. Kforce's liability at December 31, 2008 was approximately \$43,878 if all of the employees under contract were terminated without good cause by the employer or the employees resign for good cause following a change in control and \$17,990 if all of the employees under contract were terminated by Kforce without good cause or the employees resign for good cause in the absence of a change of control.

During December 2008, it became probable that Kforce would be required to make a severance payment to a departing named executive officer in the amount of \$624, which was accrued and classified in accrued payroll costs in the accompanying consolidated balance sheets. No liability was recorded as of December 31, 2007 related to employment agreements as there was no event that occurred that would have required payment under the agreements.

## 15. Reportable Segments

Kforce's reportable segments are as follows: (i) Technology, (ii) Finance and Accounting, (iii) Health and Life Sciences, and (iv) Government Solutions. This determination was supported by, among others: the existence of segment presidents responsible for the operations of each segment and who also report directly to our chief operating decision maker, the nature of the segment's operations and information presented to the Board of Directors. During this assessment, it was determined that Kforce also reports Flexible billings and Search fees separately by segment, which has been incorporated into the table below.

Although the Government Solutions segment, which resulted from the 2006 acquisitions of PCCI and Bradson, does not meet quantitative thresholds for separate segment reporting, management believes that the information is useful to the readers of our financial statements.

Historically, and through our year ended December 31, 2008, 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.

The following table provides information concerning the continuing operations of our segments for the three years ended December 31, 2008:

|                      | <u>Technology</u> | <u>Finance and<br/>Accounting</u> | <u>Health and<br/>Life Sciences</u> | <u>Government<br/>Solutions</u> | <u>Total</u>     |
|----------------------|-------------------|-----------------------------------|-------------------------------------|---------------------------------|------------------|
| <b>2008</b>          |                   |                                   |                                     |                                 |                  |
| Net service revenues |                   |                                   |                                     |                                 |                  |
| Flexible billings    | \$493,282         | \$ 174,039                        | \$ 187,486                          | \$ 76,225                       | \$931,032        |
| Search fees          | 26,585            | 37,220                            | 2,180                               | —                               | 65,985           |
| Total revenue        | <u>\$519,867</u>  | <u>\$ 211,259</u>                 | <u>\$ 189,666</u>                   | <u>\$ 76,225</u>                | <u>\$997,017</u> |
| Gross profit         | \$161,087         | \$ 95,458                         | \$ 59,669                           | \$ 28,437                       | \$344,651        |
| <b>2007</b>          |                   |                                   |                                     |                                 |                  |
| Net service revenues |                   |                                   |                                     |                                 |                  |
| Flexible billings    | \$488,968         | \$ 189,824                        | \$ 156,478                          | \$ 61,764                       | \$897,034        |
| Search fees          | 29,820            | 43,301                            | 2,626                               | —                               | 75,747           |
| Total revenue        | <u>\$518,788</u>  | <u>\$ 233,125</u>                 | <u>\$ 159,104</u>                   | <u>\$ 61,764</u>                | <u>\$972,781</u> |
| Gross profit         | \$169,450         | \$ 106,577                        | \$ 52,001                           | \$ 23,995                       | \$352,023        |
| <b>2006</b>          |                   |                                   |                                     |                                 |                  |
| Net service revenues |                   |                                   |                                     |                                 |                  |
| Flexible billings    | \$430,731         | \$ 208,815                        | \$ 126,992                          | \$ 32,877                       | \$799,415        |
| Search fees          | 25,638            | 40,688                            | 2,260                               | —                               | 68,586           |
| Total revenue        | <u>\$456,369</u>  | <u>\$ 249,503</u>                 | <u>\$ 129,252</u>                   | <u>\$ 32,877</u>                | <u>\$868,001</u> |
| Gross profit         | \$144,753         | \$ 108,208                        | \$ 41,267                           | \$ 10,521                       | \$304,749        |

## 16. Quarterly Financial Data (Unaudited)

The quarterly financial data presented below has been adjusted, where applicable, to reflect the discontinued operations of Kforce's Scientific and Nursing businesses, which is more fully described in Note 2.

|   | <b>THREE MONTHS ENDED</b> |                |                     |                    |
|---|---------------------------|----------------|---------------------|--------------------|
|   | <b>March 31</b>           | <b>June 30</b> | <b>September 30</b> | <b>December 31</b> |
| <b>2008</b>   |                           |                |                     |                    |
| Net service revenues  | \$250,012                 | \$255,133      | \$ 250,918          | \$ 240,954         |
| Gross profit  | 86,015                    | 91,364         | 86,567              | 80,705             |
| Income (loss) from discontinued operations, net of income taxes | 558                       | 3,585          | 910                 | (40)               |
| Net income (loss)   | 7,178                     | 8,700          | 7,892               | (107,878)          |
| Earnings (loss) per share-basic                                 | \$ 0.18                   | \$ 0.22        | \$ 0.20             | \$ (2.81)          |
| Earnings (loss) per share-diluted                               | \$ 0.18                   | \$ 0.22        | \$ 0.20             | \$ (2.81)          |
| <b>2007</b>   |                           |                |                     |                    |
| Net service revenues  | \$235,902                 | \$243,454      | \$ 246,470          | \$ 246,955         |
| Gross profit  | 83,442                    | 88,733         | 91,338              | 88,510             |
| Income from discontinued operations, net of income taxes        | 855                       | 1,090          | 697                 | 802                |
| Net income  | 8,795                     | 10,577         | 11,024              | 9,971              |
| Earnings per share-basic  | \$ 0.21                   | \$ 0.26        | \$ 0.27             | \$ 0.24            |
| Earnings per share-diluted                                      | \$ 0.21                   | \$ 0.25        | \$ 0.26             | \$ 0.24            |

As is more fully described in Note 6, Kforce completed its annual goodwill impairment test as of December 31, 2008 for each of its reporting units and, as a result, recorded an impairment charge of \$128,429. In addition, Kforce determined that the carrying value of certain of its trade names and trademarks acquired in the January 2006 acquisition of PCCI Holdings, Inc. ("PCCI") was no longer recoverable. As a result, an impairment charge of \$980 was recognized. These items were included in goodwill and intangible asset impairment in the accompanying consolidated statements of operations and comprehensive income (loss).

During the fourth quarter of 2007, Kforce eliminated an estimated liability for unclaimed property of \$870, which related to Kforce's 2004 acquisition of Hall Kinion, which was recorded in selling, general and administrative expenses.

## 17. Supplemental Cash Flow Information

Supplemental cash flow information is as follows for the year ended December 31:

|   | <b>2008</b>     | <b>2007</b>     | <b>2006</b>      |
|---|-----------------|-----------------|------------------|
| <i>Cash paid during the period for:</i>   |                 |                 |                  |
| Income taxes paid, net  | \$19,927        | \$15,725        | \$ 612           |
| Interest, net   | \$ 1,905        | \$ 5,137        | \$ 3,689         |
| <i>Non-Cash Transaction Information:</i>  |                 |                 |                  |
| Tax benefit from disqualifying dispositions of stock options and restricted stock | \$ 416          | \$ 1,530        | \$ 5,700         |
| Shares tendered in payment of exercise price of stock options                     | \$ 578          | —               | —                |
| Common Stock transactions:  |                 |                 |                  |
| Employee stock purchase plan  | \$ 849          | \$ 1,098        | \$ 1,597         |
| Issuance of stock in an acquisition   | —               | —               | \$ 5,202         |
| Equipment acquired under capital leases   | \$ 1,863        | \$ 3,397        | \$ 2,736         |
| Settlement of acquisition escrow – adjustment to goodwill                         | —               | \$ 9,648        | —                |
| Proceeds from discontinued operations held in escrow                              | \$ 1,150        | —               | —                |
| <i>Cash used in connection with acquisitions, net:</i>                            |                 |                 |                  |
| Acquisition costs   | \$38,982        | \$ 31           | \$127,406        |
| Escrow funds not included in purchase price                                       | —               | —               | 10,000           |
| Escrow refund   | —               | (352)           | —                |
| Cash received in acquisition  | (578)           | —               | (906)            |
| Transaction costs – Hall Kinion tax adjustments                                   | —               | (18)            | —                |
| Cash overdraft received in acquisition  | —               | —               | 232              |
|   | <u>\$38,404</u> | <u>\$ (339)</u> | <u>\$136,732</u> |

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

None.

**Item 9A. *Controls and Procedures***

***Evaluation of Disclosure Controls and Procedures***

We carried out an evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act (the “Evaluation”), as of the end of the period covered by this report, under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15 and 15d-15 under the Exchange Act (“Disclosure Controls”). Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

***Changes in Internal Controls***

There has not been any change in our internal controls over financial reporting identified in connection with the Evaluation that occurred during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, those controls.

***Inherent Limitations of Internal Control Over Financial Reporting***

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

***CEO and CFO Certifications***

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

***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 Securities Exchange Act, as amended. 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, 2008. 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. Based on our assessment we believe that, as of December 31, 2008, 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, which is presented in Item 8.

**Item 9B. *Other Information***

None.

### PART III

#### **Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by Item 10 relating to our directors, executive officers and corporate governance is incorporated herein by reference to our definitive proxy statement for the 2009 Annual Meeting of Shareholders, to be filed with the SEC within 120 days of December 31, 2008.

#### **Item 11. *Executive Compensation***

The information required by Item 11 relating to executive compensation is incorporated herein by reference to our definitive proxy statement for the 2009 Annual Meeting of Shareholders, to be filed with the SEC within 120 days of December 31, 2008.

#### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by Item 12 relating to security ownership of certain beneficial owners and management and related stockholders matters is incorporated herein by reference to our definitive proxy statement for the 2009 Annual Meeting of Shareholders, to be filed with the SEC within 120 days of December 31, 2008.

Information regarding equity compensation plans required by this item is included in Item 5 of Part II of this report and is incorporated into this item by reference.

#### **Item 13. *Certain Relationships and Related Transactions and Director Independence***

The information required by Item 13 relating to certain relationships and related transactions and director independence is incorporated herein by reference to our definitive proxy statement for the 2009 Annual Meeting of Shareholders, to be filed with the SEC within 120 days of December 31, 2008.

#### **Item 14. *Principal Accounting Fees and Services***

The information required by Item 14 relating to principal accountant fees and services is incorporated herein by reference to our definitive proxy statement for the 2009 Annual Meeting of Shareholders, to be filed with the SEC within 120 days of December 31, 2008.

### PART IV

#### **Item 15. *Exhibits and Financial Statement Schedule***

- (a) The following documents are filed as part of this Report:

**1. Consolidated Financial Statement Schedule.** The consolidated financial statement schedule of Kforce is included in Part IV of this report on the page indicated by the Index to Consolidated Financial Statements and Schedule presented below. The independent auditors' report as presented on page 34 of this report applies to the consolidated financial statement schedule. This financial statement schedule should be read in conjunction with the consolidated financial statements, and related notes thereto of Kforce.

Schedules not listed in the Index to Consolidated Financial Statements and Schedule have been omitted because they are not applicable, not required, or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

**2. Exhibits.** See Item 15(b) below.

- (b) **Exhibits.** The exhibits listed on the Exhibits Index are incorporated by reference into this Item 15(b) and are a part of this report.

### KFORCE INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

Consolidated Financial Statement Schedule:

[Schedule II – Valuation and Qualifying Accounts and Reserves](#)

70

**SCHEDULE II**

**KFORCE INC. AND SUBSIDIARIES  
VALUATION AND QUALIFYING  
ACCOUNTS AND RESERVES  
SUPPLEMENTAL SCHEDULE  
(in thousands)**

| <u>COLUMN A</u>                              | <u>COLUMN B</u>                |          | <u>COLUMN C</u>                                 |                                      | <u>COLUMN D</u>       | <u>COLUMN E</u>                 |
|--|--------------------------------|----------|---|--------------------------------------|-----------------------|---------------------------------|
| <u>DESCRIPTION</u>                           | <u>BALANCE AT BEGINNING OF</u> |          | <u>CHARGED TO COSTS AND EXPENSES (RECOVERY)</u> | <u>CHARGED TO OTHER ACCOUNTS (a)</u> | <u>DEDUCTIONS (b)</u> | <u>BALANCE AT END OF PERIOD</u> |
| Allowance for doubtful accounts and fallouts | 2006                           | \$ 5,099 | (1,721)   | 2,256                                | (2,919)               | \$ 2,715                        |
|  | 2007                           | \$ 2,715 | 1,214   | 102                                  | (1,029)               | \$ 3,002                        |
|  | 2008                           | \$ 3,002 | 5,121   | (166)                                | (1,587)               | \$ 6,370                        |

- (a) Charged to other accounts includes the provision for fallouts of search placements that has been deducted from net service revenues in the accompanying consolidated statements of income and comprehensive income.
- (b) Deductions include write-offs of uncollectible accounts receivable and fallouts of search placements that have been charged against the allowance for doubtful accounts and fallouts.



Date: March 11, 2009

By:                   /s/ PATRICK D. MONEYMAKER  
Patrick D. Moneymaker  
Director

Date: March 11, 2009

By:                   /s/ ELAINE D. ROSEN  
Elaine D. Rosen  
Director

Date: March 11, 2009

By:                   /s/ A. GORDON TUNSTALL  
A. Gordon Tunstall  
Director

Date: March 11, 2009

By:                   /s/ RALPH E. STRUZZIERO  
Ralph E. Struzziero  
Director

Date: March 11, 2009

By:                   /s/ HOWARD W. SUTTER  
Howard W. Sutter  
Vice Chairman, Vice President and Director

## EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u>  |
|-----------------------|---|
| 3.1                   | Amended and Restated Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 33-91738) filed with the SEC on May 9, 1996.   |
| 3.1a                  | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-4/A (File No. 333-111566) filed with the SEC on February 9, 2004, as amended.  |
| 3.1b                  | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-4/A (File No. 333-111566) filed with the SEC on February 9, 2004, as amended.  |
| 3.1c                  | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Registration Statement on Form S-4/A (File No. 333-111566) filed with the SEC on February 9, 2004, as amended.  |
| 3.1d                  | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on May 17, 2000.   |
| 3.1e                  | Articles of Amendment to Articles of Incorporation, incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-26058) filed with the SEC on March 29, 2002.   |
| 3.2                   | Amended & Restated Bylaws, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on February 7, 2007.  |
| 4.1                   | Rights Agreement, dated as of October 29, 2008, between Kforce Inc. and Computershare Trust Company, N.A., as Rights Agent, which includes the Form of Rights Certificate as Exhibit A, and the Summary of Rights to Purchase Common Stock as Exhibit B, incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 000-26058) filed with the SEC on October 29, 2008. |
| 4.2                   | Form of Stock Certificate, incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-03393) filed with the SEC on May 9, 1996.   |
| 9.1                   | Form of Parent Voting Agreement, dated as of December 2, 2003, by and between the Registrant and certain stockholders of Hall, Kinion & Associates, Inc., incorporated by reference to the Registrant's Registration Statement on Form S-4 (File No. 333-111566) filed with the SEC on December 24, 2003, as amended.   |
| 9.2                   | Form of Voting Agreement, dated as of December 2, 2003, by and between Hall Kinion & Associates, Inc. and certain stockholders of the Registrant, incorporated by reference to the Registrant's Registration Statement on Form S-4 (File No. 333-111566) filed with the SEC on December 24, 2003, as amended.   |
| 10.1                  | Second Amended and Restated Credit Agreement, dated as of October 2, 2006, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on October 3, 2006.   |
| 10.2                  | Consent and First Amendment to Second Amended and Restated Credit Agreement, dated as of July 2, 2007.  |
| 10.3                  | Consent and Second Amendment to Second Amended and Restated Credit Agreement, dated as of December 16, 2008.  |
| 10.4                  | Employment Agreement, dated as of December 31, 2006, between the Registrant and David L. Dunkel, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on January 8, 2007.   |
| 10.5                  | Amendment to Employment Agreement, dated as of December 24, 2008, between Kforce Inc. and David L. Dunkel, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.   |
| 10.6                  | Employment Agreement, dated as of December 31, 2006, between the Registrant and William L. Sanders, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on January 8, 2007.  |

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 10.7                  | Amendment to Employment Agreement, dated as of December 24, 2008, between Kforce Inc. and William L. Sanders, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.  |
| 10.8                  | Employment Agreement, dated as of December 31, 2006, between the Registrant and Joseph J. Liberatore, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on January 8, 2007.  |
| 10.9                  | Amendment to Employment Agreement, dated as of December 24, 2008, between Kforce Inc. and Joseph J. Liberatore, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.  |
| 10.10                 | Employment Agreement, dated as of December 31, 2006, between the Registrant and Michael Ettore, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on January 8, 2007.  |
| 10.11                 | Amendment to Employment Agreement, dated as of December 24, 2008, between Kforce Inc. and Michael Ettore, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.  |
| 10.12                 | Employment Agreement, dated as of December 31, 2006, between the Registrant and Steven McMahan, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on January 8, 2007.  |
| 10.13                 | Amendment to Employment Agreement, dated as of December 24, 2008, between Kforce Inc. and Stephen J. McMahan, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.  |
| 10.14                 | Employment Agreement, dated as of July 1, 2003, between the Registrant and Howard Sutter.   |
| 10.15                 | Amendment to Employment Agreement, dated as of December 30, 2008, between Kforce Inc. and Howard Sutter.  |
| 10.16                 | Kforce Inc. Supplemental Executive Retirement Plan, incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-26058) filed with the SEC on March 7, 2007.  |
| 10.17                 | Amended and Restated Kforce Inc. Supplemental Executive Retirement Plan, dated as of December 31, 2006, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.  |
| 10.18                 | Adoption Agreement to the Amended and Restated Kforce Inc. Supplemental Executive Retirement Plan, dated as of December 31, 2006, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 29, 2008.  |
| 10.19                 | Stock Purchase Agreement, dated as of December 2, 2008, by and among Kforce Government Holdings Inc., Kforce Inc., RDI Systems, Inc., each of RDI's shareholders and Nancy R. Kudla, as representative of RDI's shareholders, incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26058) filed with the SEC on December 5, 2008. |
| 21                    | List of Subsidiaries.   |
| 23                    | Consent of Deloitte & Touche LLP.   |
| 31.1                  | Certification by the Chief Executive Officer of Kforce Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2                  | Certification by the Chief Financial Officer of Kforce Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1                  | Certification by the Chief Executive Officer of Kforce Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2                  | Certification by the Chief Financial Officer of Kforce Inc. pursuant to 18 U.S.C. Section 2350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

**FIRST AMENDMENT**  
**TO**  
**SECOND AMENDED AND RESTATED CREDIT AGREEMENT**

THIS FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is made and entered into this 2<sup>nd</sup> day of July, 2007, by and among Kforce Inc., a Florida corporation ("Kforce"), Kforce Government Solutions, Inc., a Pennsylvania corporation ("Government Solutions") and Bradson Corporation, a Rhode Island corporation ("Bradson" and together with Kforce and Government Solutions, "Borrowers" and each a "Borrower"); the affiliates of the Borrowers party hereto as "Subsidiary Guarantors" (the "Subsidiary Guarantors"); the Lenders (as defined in the Credit Agreement (as defined below)) party hereto; Bank of America, N.A., a national banking association, as agent for the Lenders (together with its successors in such capacity, "Administrative Agent").

**Recitals:**

Administrative Agent, Lenders, Borrowers and Subsidiary Guarantors are parties to a certain Second Amended and Restated Credit Agreement dated as of October 2, 2006, as amended by that certain letter agreement dated as of January 5, 2007, and as supplemented by that certain Joinder Agreement dated as of February 28, 2007 (the "Credit Agreement") pursuant to which Lenders have made certain loans and other financial accommodations to Borrowers.

Borrowers have requested certain amendments to the Credit Agreement and Lenders have agreed to such amendments upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, for TEN DOLLARS (\$10.00) in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby severally acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

**1. Definitions.** All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Credit Agreement.

**2. Amendments to Credit Agreement.** The Credit Agreement is hereby amended as follows:

(a) Section 7.2 of the Credit Agreement, Legal Existence and Good Standing, is hereby deleted in its entirety and the following is hereby substituted therefor:

"7.2 **Legal Existence and Good Standing.** Each Credit Party shall maintain (i) its legal existence and (ii) its qualification and good standing in all jurisdictions in which the failure to maintain such existence and qualification or good standing could reasonably be expected to have a Material Adverse Effect; provided, however, that in connection with the merger of a Credit Party into another Credit Party permitted under Section 7.9 hereof, upon consummation of such merger, the obligations in this Section 7.2 shall not continue to apply to any Credit Party that is not the continuing or surviving corporation of such merger."

(b) Section 7.9 of the Credit Agreement, Mergers, Consolidations or Sales, is hereby modified and amended to delete clause (a) thereof in its entirety and the following is hereby substituted therefor:

“(a) to enter into any transaction of merger or consolidation or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); provided that, notwithstanding the foregoing provisions of this Section 7.9, (i) any Borrower may merge or consolidate with any of its Subsidiaries provided that (A) a Borrower shall be the continuing or surviving corporation, (B) the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the Administrative Agent may request in order to maintain the perfection and priority of the Administrative Agent’s liens on the assets of the Credit Parties as required by Section 6(f) of the Security Agreement after giving effect to such transaction and (C) after giving effect to such transaction, no Default or Event of Default exists, (ii) any Credit Party other than a Borrower may merge or consolidate with any other Credit Party provided that (A) the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the Administrative Agent may request in order to maintain the perfection and priority of the Administrative Agent’s liens on the assets of the Credit Parties as required by Section 6(f) of the Security Agreement after giving effect to such transaction and (B) after giving effect to such transaction, no Default or Event of Default exists, (iii) any Consolidated Party which is not a Credit Party may be merged or consolidated with or into any Credit Party provided that (A) such Credit Party shall be the continuing or surviving corporation, (B) the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the Administrative Agent may request in order to maintain the perfection and priority of the Administrative Agent’s liens on the assets of the Credit Parties as required by Section 6(f) of the Security Agreement after giving effect to such transaction and (C) after giving effect to such transaction, no Default or Event of Default exists, (iv) any Consolidated Party which is not a Credit Party may be merged or consolidated with or into any other Consolidated Party which is not a Credit Party provided that, after giving effect to such transaction, no Default or Event of Default exists; (v) any Immaterial Subsidiary of any Borrower may dissolve itself so long as (A) the assets of such Immaterial Subsidiary are transferred to another Credit Party prior to such dissolution and (B) the Borrowers provide the Administrative Agent with written notice of such dissolution with five (5) Business Days of the occurrence of such dissolution; and (vi) any Borrower may merge or consolidate with any other Borrower provided that (A) a Borrower shall be the continuing or surviving corporation and, in the event of any merger with Parent, Parent shall be the continuing or surviving corporation, (B) the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the Administrative Agent may request in order to maintain the perfection and priority of the Administrative Agent’s liens on the assets of the Credit Parties as required by Section 6(f) of the Security Agreement after giving effect to such transaction and (C) after giving effect to such transaction, no Default or Event of Default exists; provided further, that any transaction described in the foregoing clauses (i) through (vi) shall be consummated in accordance with all applicable licenses, permits, franchises, governmental authorizations and all other Requirements of Law.”

(c) Section 7.10 of the Credit Agreement, Distributions; Capital Change; Restricted Investments, is hereby deleted in its entirety and the following is hereby substituted therefor:

**7.10 Distributions; Capital Change; Restricted Investments.** No Credit Party shall (i) directly or indirectly declare or make, or incur any liability to make, any Distribution, except (A) in connection with an with an Eligible Securities Repurchase that is funded by a Securities Repurchase Loan, (B) Distributions to the Parent by a Subsidiary, (C) a Distribution of all of the outstanding capital stock of Kforce Global Solutions, Inc., a Pennsylvania corporation formerly known as Provident Computer Consultants, Inc., from Government Solutions to Government Holdings, provided that (i) the Credit Parties shall cause to be executed and delivered such documents, instruments and certificates as the Administrative Agent may request in order to maintain the perfection and priority of the Administrative Agent's liens on the assets of the Credit Parties as required by Section 6(f) of the Security Agreement after giving effect to such Distribution (including, without limitation, any original stock certificates issued to Government Holdings evidencing such Capital Stock) and (ii) after giving effect to such Distribution, no Default or Event of Default exists, or (D) at any time after the expiration or termination of the Additional Availability Period, Distributions by the Parent if, after giving effect thereto the Borrowers have Availability of not less than \$15,000,000; (ii) make any change in its capital structure which could have a Material Adverse Effect; or (iii) make any Investments in or to any Person, except (A) Permitted Investments and (B) at any time after the expiration or termination of the Additional Availability Period, any other Investment so long as, after giving effect thereto, the Borrowers have Availability of not less than \$15,000,000.

(d) Section 7.15 of the Credit Agreement, Transactions with Affiliates, is hereby modified and amended to delete the period at the end of Section 7.15 and to add the following new clauses (c) and (d) to the end thereof:

“, and (c) each Credit Party and each Subsidiary of a Credit Party may engage in transactions with Affiliates that are permitted pursuant to Section 7.9 or Section 7.10 hereof, and (d) a Credit Party may transfer all outstanding capital stock of any of its Subsidiaries that is a Credit Party to another Credit Party with Administrative Agent's prior written consent and provided that the Credit Parties shall have caused to be executed and delivered such documents, instruments and certificates as the Administrative Agent may request in connection therewith, including, without limitation, all documents, instruments and certificates as the Administrative Agent may request in order to maintain the perfection and priority of the Administrative Agent's liens on the assets of the Credit Parties as required by Section 6(f) of the Security Agreement.”

(e) Section 7.28 of the Credit Agreement, Post Closing Covenants, is hereby modified and amended to delete clause (a) thereof in its entirety and to substitute the following therefor:

“(a) On or before August 1, 2007 (or such later date as shall be permitted by the Administrative Agent in writing), the Borrowers shall deliver evidence to the Administrative Agent that the collateral descriptions set forth in financing statements 200408305523 and 20050040074X filed with the Florida Secured Transactions Registry have been amended to the satisfaction of the Administrative Agent.”

**3. Ratification and Reaffirmation.** Each Borrower hereby ratifies and reaffirms the Obligations, each of the Loan Documents and all of such Borrower’s covenants, duties, indebtedness and liabilities under the Loan Documents.

**4. Acknowledgments and Stipulations.** Each Borrower acknowledges and stipulates that the Credit Agreement, as amended by the Amendment, and the other Loan Documents executed by such Borrower are legal, valid and binding obligations of such Borrower that are enforceable against such Borrower in accordance with the terms thereof; all of the Obligations are owing and payable without defense, offset or counterclaim (and to the extent there exists any such defense, offset or counterclaim on the date hereof, the same is hereby waived by such Borrower); the security interests and liens granted by each Borrower in favor of Lender are duly perfected, first priority security interests and liens subject only to Permitted Liens; and the unpaid principal amount of the Loans and the issued and outstanding Letters of Credit on and as of the close of business on June 29, 2007 totaled \$71,722,023.86.

**5. Representations and Warranties.** Each Borrower represents and warrants to Administrative Agent and Lenders, to induce Administrative Agent and Lenders to enter into this Amendment, that no Default or Event of Default exists on the date hereof; the execution, delivery and performance of this Amendment have been duly authorized by all requisite corporate action on the part of each Borrower and this Amendment has been duly executed and delivered by each Borrower; and all of the representations and warranties made by each Borrower in the Credit Agreement are true and correct on and as of the date hereof.

**6. Reference to Credit Agreement.** Upon the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement,” “hereunder,” or words of like import shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

**7. Breach of Amendment.** This Amendment shall be part of the Credit Agreement and a breach of any representation, warranty or covenant herein shall constitute an Event of Default.

**8. Conditions Precedent.** The effectiveness of the amendments contained in Section 2 hereof are subject to the satisfaction of each of the following conditions precedent, in form and substance satisfactory to Administrative Agent, unless satisfaction thereof is specifically waived in writing by Administrative Agent:

(a) Administrative Agent’s receipt of one or more duly executed counterparts of this Agreement from Borrowers and Required Lenders; and

(b) Administrative Agent's receipt of such other documents, certificates, resolutions and reports as Administrative Agent may reasonably request.

**9. Expenses of Lender.** Each Borrower, jointly and severally, agrees to pay, **on demand**, all costs and expenses incurred by Administrative Agent in connection with the preparation, negotiation and execution of this Amendment and any other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Administrative Agent's legal counsel and any taxes or expenses associated with or incurred in connection with any instrument or agreement referred to herein or contemplated hereby.

**10. Governing Law.** This Amendment shall be governed by and construed in accordance with the internal laws of the State of Georgia.

**11. Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

**12. No Novation, etc.** Except as otherwise expressly provided in this Amendment, nothing herein shall be deemed to amend or modify any provision of the Credit Agreement or any of the other Loan Documents, each of which shall remain in full force and effect. This Amendment is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction, and the Credit Agreement as herein modified shall continue in full force and effect.

**13. Counterparts; Telecopied Signatures.** This Amendment may be executed in any number of counterparts and by different parties to this Amendment on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile or electronic mail transmission shall be deemed to be an original signature hereto.

**14. Further Assurances.** Each Borrower agrees to take such further actions as Administrative Agent shall reasonably request from time to time in connection herewith to evidence or give effect to the amendments set forth herein or any of the transactions contemplated hereby.

**15. Section Titles.** Section titles and references used in this Amendment shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto.

**16. Release of Claims.** To induce Administrative Agent and Lenders to enter into this Amendment, each Subsidiary Guarantor and each Borrower hereby releases, acquits and forever discharges Administrative Agent and Lenders, and all officers, directors, agents, employees, successors and assigns of Administrative Agent and Lenders, from any and all liabilities, claims, demands, actions or causes of action of any kind or nature (if there be any), whether absolute or contingent, disputed or undisputed, at law or in equity, or known or unknown, that such Subsidiary Guarantor or such Borrower now has or ever had against Administrative Agent or any Lender arising under or in connection with any of the Loan Documents or otherwise. Each of Subsidiary Guarantor and each Borrower represents and warrants to Administrative Agent and Lenders that such Subsidiary Guarantor or such Borrower, as applicable, has not transferred or assigned to any Person any claim that such Subsidiary Guarantor or such Borrower, as applicable, ever had or claimed to have against Administrative Agent or any Lender.

**17. Waiver of Jury Trial.** To the fullest extent permitted by applicable law, the parties hereto each hereby waives the right to trial by jury in any action, suit, counterclaim or proceeding arising out of or related to this Amendment.

**18. Reaffirmation of Guaranty.** Each undersigned Subsidiary Guarantor hereby (i) consents to Borrowers' execution and delivery of this Amendment and of the other documents, instruments or agreements Borrowers agree to execute and deliver pursuant hereto; (ii) agrees to be bound by this Amendment; and (iii) affirms that nothing contained therein shall modify in any respect whatsoever its guaranty of the Obligations and reaffirms that such guaranty is and shall remain in full force and effect.

[Signatures commence on following page.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

**BANK OF AMERICA, N.A.**, as Administrative Agent and a Lender

By: /s/ Mark R. Herdman

Name: Mark R. Herdman

Title: Senior Vice President

**PNC BANK, NATIONAL ASSOCIATION**, as a Lender

By: /s/ Jerold Slutsky

Name: Jerold Slutsky

Title: Vice President

**THE CIT GROUP / BUSINESS CREDIT, INC.**, as a Lender

By: /s/ C. Mark Smith

Name: C. Mark Smith

Title: Vice President

**WACHOVIA BANK, NATIONAL ASSOCIATION**, as Lender

By: /s/ Lynn E. Culbreath

Name: Lynn E. Culbreath

Title: Senior Vice President

**“BORROWERS”**

**Kforce Inc.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Bradson Corporation**, a Rhode Island corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Kforce Government Solutions, Inc.**, a Pennsylvania corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**“GUARANTORS”**

**Kforce Airlines, Inc.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**kforce.com, Inc.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Kforce Flexible Solutions, LLC**, a Florida limited liability company

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Kforce Government Holdings Inc.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Kforce Staffing Solutions of California, LLC**, a Florida limited liability company

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Kforce Global Solutions, Inc.** formerly known as **Provident Computer Consultants, Inc.**, a Pennsylvania corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Romac International, Inc.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**Kforce Services Corp.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer

**CONSENT AND SECOND AMENDMENT TO  
SECOND AMENDED AND RESTATED CREDIT AGREEMENT**

THIS CONSENT AND SECOND AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is made and entered into this 16th day of December, 2008, by and among **KFORCE INC.**, a Florida corporation ("Kforce"); **KFORCE GOVERNMENT SOLUTIONS, INC.**, a Pennsylvania corporation and successor by merger to Bradson Corporation ("Government Solutions"; Kforce and Government Solutions are collectively referred to herein as "Existing Borrowers" and individually as "Existing Borrower"); the affiliates of Existing Borrowers party hereto as "Subsidiary Guarantors" ("Subsidiary Guarantors"); the Lenders (as defined in the Credit Agreement (as defined below)) party hereto; and **BANK OF AMERICA, N.A.**, a national banking association, as agent for the Lenders (together with its successors in such capacity, "Administrative Agent").

**Recitals:**

Administrative Agent, Lenders, Existing Borrowers and Subsidiary Guarantors are parties to a certain Second Amended and Restated Credit Agreement dated as of October 2, 2006, as amended by that certain letter agreement dated as of January 5, 2007, as supplemented by that certain Joinder Agreement dated as of February 28, 2007, and as further amended by that certain First Amendment to Second Amended and Restated Credit Agreement dated July 2, 2007 (as at any other time amended, modified, restated or supplemented, the "Credit Agreement"), pursuant to which Lenders have made certain loans and other financial accommodations to Existing Borrowers.

Kforce, Kforce Government Holdings Inc., a Florida corporation ("Government Holdings"), RDI Systems, Inc., a Texas corporation (the "RDI Systems Target"), the shareholders of the RDI Systems Target and Nancy R. Kudla, as representative of the shareholders of the RDI Systems Target, have entered into that certain Stock Purchase Agreement dated December 2, 2008 (the "RDI Stock Purchase Agreement"), pursuant to which Government Holdings has acquired 100% of the issued and outstanding capital stock of the RDI Systems Target (such transaction is referred to herein as the "RDI Systems Target Acquisition"). The RDI Systems Target Acquisition was consummated as of November 30, 2008, and was permitted under Section 7.10(iii)(B) of the Credit Agreement.

Pursuant to Section 7.26(b) of the Credit Agreement, Existing Borrowers have requested that Required Lenders consent to the RDI Systems Target becoming a Borrower under the Credit Agreement and, subject to the terms and conditions of this Amendment, Required Lenders have consented to the RDI Systems Target becoming a Borrower under the Credit Agreement.

Kforce has informed Administrative Agent that it has formed each of Kforce Clinical Research, Inc., a Florida corporation ("Kforce Clinical Research"), Kforce Clinical Research Flex, LLC, a Florida limited liability company ("Kforce Clinical Research Flex"), Kforce Healthcare, Inc., a Florida corporation ("Kforce Healthcare"), and Kforce Healthcare Flex, LLC, a Florida limited liability company ("Kforce Healthcare Flex"). Pursuant to Section 7.10(iii)(B) of the Credit Agreement, effective January 1, 2009, Kforce will contribute certain business units of Kforce to each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex (such proposed investment is referred to herein as the "Proposed Clinical and Healthcare Investment").

Pursuant to Section 7.26(b) of the Credit Agreement, Existing Borrowers have requested that, upon contribution of such business units to Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex in accordance with Section 7.10(iii)(B) of the Credit Agreement, Required Lenders consent to each of Kforce Clinical Research, Kforce Clinical Research

Flex, Kforce Healthcare and Kforce Healthcare Flex becoming Borrowers under the Credit Agreement and, subject to the terms and conditions of this Amendment, Required Lenders consent to each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex becoming Borrowers under the Credit Agreement.

Kforce has informed Administrative Agent that Kforce intends to form each of Kforce FA & Tech, Inc., a Florida corporation (“Kforce FA & Tech”), and Kforce FA & Tech Flex, LLC, a Florida limited liability company (“Kforce FA & Tech Flex”). Pursuant to Section 7.10(iii)(B) of the Credit Agreement, effective on a later date in 2009 or thereafter, Kforce intends to contribute certain business units of Kforce to each of Kforce FA & Tech and Kforce FA & Tech Flex in 2009 (such proposed investment is referred to herein as the “Proposed FA & Tech Investment”).

Pursuant to Section 7.26(b) of the Credit Agreement, Existing Borrowers have requested that, upon contribution of such business units to Kforce FA & Tech and Kforce FA & Tech Flex in accordance with Section 7.10(iii)(B) of the Credit Agreement, Required Lenders consent to each of Kforce FA & Tech and Kforce FA & Tech Flex becoming Borrowers under the Credit Agreement and, subject to the terms and conditions of this Amendment, Required Lenders consent to each of Kforce FA & Tech and Kforce FA & Tech Flex becoming Borrowers under the Credit Agreement.

Existing Borrowers have requested certain amendments to the Credit Agreement, and Lenders have agreed to such amendments upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, for TEN DOLLARS (\$10.00) in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby severally acknowledged, each party hereto, intending to be legally bound hereby, agrees as follows:

**1. Definitions.** All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Credit Agreement.

**2. Consents.**

(a) Subject to satisfaction of each of the RDI Systems Target Joinder Conditions, Required Lenders consent to the RDI Systems Target becoming a Borrower under the Credit Agreement. For purposes of this Amendment, “RDI Systems Target Joinder Conditions” shall mean satisfaction of each of the following conditions in form and substance satisfactory to Administrative Agent:

- (i) Each of the conditions to the effectiveness of this Amendment set forth in Section 10 of this Amendment shall have been satisfied.
- (ii) Administrative Agent shall have received each of the following:
  1. A Joinder Agreement duly executed and delivered by each of the RDI Systems Target, Existing Borrowers and Subsidiary Guarantors, including all schedules and exhibits thereto (the “RDI Systems Joinder Agreement”);
  2. A Certificate Regarding Stock Purchase Agreement duly executed and delivered by Kforce, including all schedules and exhibits thereto, certifying that (I) the RDI Systems Target Acquisition has been fully consummated, (II) after giving effect to the RDI Systems Target Acquisition, Existing Borrowers have Availability of not less than \$15,000,000, and (III) the RDI Systems Target Acquisition is an Eligible Acquisition;

3. A Pledge Agreement Supplement pursuant to which Government Holdings pledges and collaterally assigns to Administrative Agent all of its interest in the capital stock or equity interests of the RDI Systems Target;
  4. Allonges to the Amended and Restated Revolving Loan Notes duly executed by the RDI Systems Target;
  5. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of the RDI Systems Target, including all schedules and exhibits thereto;
  6. All original certificates representing the equity interests of the RDI Systems Target, as well as accompanying stock powers duly executed in blank, with signatures properly guaranteed;
  7. Updated Liability and Property Insurance Certificates and Endorsements reflecting the inclusion of the RDI Systems Target on such certificates and endorsements;
  8. An opinion letter from the counsel of Existing Borrowers, Subsidiary Guarantors and the RDI Systems Target as to such matters as shall be requested by Administrative Agent;
  9. Good standing certificates for the RDI Systems Target, issued by the Secretary of State or other appropriate official of the RDI Systems Target's jurisdiction of incorporation and each jurisdiction where the conduct of the RDI Systems Target's business activities or ownership of its property necessitates qualification;
  10. An out-of-state affidavit executed by the authorized officer or director executing the RDI Systems Joinder Agreement and the other Loan Documents on behalf of the RDI Systems Target, which affidavit is made for the benefit of Administrative Agent and the Lenders for compliance with the laws of the State of Florida relating to documentary stamp taxes; and
  11. Such other documents, certificates, resolutions and reports as Administrative Agent may request.
- (iii) The RDI Systems Target shall have duly executed and delivered to Administrative Agent all documentation required by Administrative Agent in order to perfect, or maintain and continue the perfection of, Administrative Agent's Liens on the assets and stock of the RDI Systems Target without interruption or release of any kind.

(b) Subject to satisfaction of each of the Clinical Research and Healthcare Joinder Conditions, Required Lenders consent to each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex becoming a Borrower under the Credit Agreement; provided however, that Credit Parties acknowledge and agree that Administrative Agent and Lenders shall not be obligated to extend, and no Borrower shall request, any extension of credit to or for the benefit of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare or Kforce Healthcare Flex unless and until the Clinical Research and Healthcare Supplemental Joinder Condition

has been satisfied and all other conditions to the extension of credit set forth in the Loan Documents have been satisfied. For purposes of this Amendment, "Clinical Research and Healthcare Joinder Conditions" shall mean satisfaction of each of the following conditions in form and substance satisfactory to Administrative Agent on or before January 1, 2009:

- (i) Each of the conditions to the effectiveness of this Amendment set forth in Section 10 of this Amendment shall have been satisfied.
- (ii) Administrative Agent shall have received each of the following:
  - 1. A Joinder Agreement duly executed and delivered by each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex, Existing Borrowers, the RDI Systems Target and Subsidiary Guarantors, including all schedules and exhibits thereto (the "Clinical and Healthcare Joinder Agreement");
  - 2. A Pledge Agreement Supplement pursuant to which Kforce pledges and collaterally assigns to Administrative Agent all of its interest in the capital stock or equity interests of each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex;
  - 3. Allonges to the Amended and Restated Revolving Loan Notes duly executed by each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex;
  - 4. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of Kforce Clinical Research, including all schedules and exhibits thereto;
  - 5. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of Kforce Clinical Research Flex, including all schedules and exhibits thereto;
  - 6. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of Kforce Healthcare, including all schedules and exhibits thereto;
  - 7. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of Kforce Healthcare Flex, including all schedules and exhibits thereto;
  - 8. All original certificates representing the equity interests of each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex, as well as accompanying stock powers duly executed in blank, with signatures properly guaranteed;
  - 9. Updated Liability and Property Insurance Certificates and Endorsements reflecting the inclusion of each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex on such certificates and endorsements;

10. An opinion letter from the counsel of Existing Borrowers, Subsidiary Guarantors, the RDI Systems Target, Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex as to such matters as shall be requested by Administrative Agent;
  11. Good standing certificates for each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex, issued by the Secretary of State or other appropriate official of the jurisdiction of incorporation or organization, as applicable, of each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex, and each jurisdiction where the conduct of the business activities or ownership of property by each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex necessitates qualification;
  12. An out-of-state affidavit executed by the authorized officer or director executing the Clinical and Healthcare Joinder Agreement and the other Loan Documents on behalf of each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex, which affidavit is made for the benefit of Administrative Agent and the Lenders for compliance with the laws of the State of Florida relating to documentary stamp taxes; and
  13. Such other documents, certificates, resolutions and reports as Administrative Agent may request.
- (iii) Each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex shall have duly executed and delivered to Administrative Agent all documentation required by Administrative Agent in order to perfect, or maintain and continue the perfection of, Administrative Agent's Liens on the assets and stock of each of Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex without interruption or release of any kind.

For purposes of this Amendment, the "Clinical Research and Healthcare Supplemental Joinder Condition" shall mean delivery to Administrative Agent of a Certificate Regarding Permitted Investment in the form of Exhibit A to this Amendment, duly executed and delivered by Kforce (together with a copy of all contribution documents, schedules and exhibits referenced therein, in each case, in form and substance satisfactory to Administrative Agent), certifying that after giving effect to the Proposed Clinical and Healthcare Investment, Borrowers have Availability of not less than \$15,000,000.

(c) Subject to satisfaction of each of the FA & Tech Joinder Conditions, Required Lenders consent to each of Kforce FA & Tech and Kforce FA & Tech Flex becoming a Borrower under the Credit Agreement. For purposes of this Amendment, "FA & Tech Joinder Conditions" shall mean satisfaction of each of the following conditions in form and substance satisfactory to Administrative Agent on or before December 31, 2010:

- (i) Each of the conditions to the effectiveness of this Amendment set forth in Section 10 of this Amendment shall have been satisfied.
- (ii) Administrative Agent shall have received each of the following:
  1. A Joinder Agreement duly executed and delivered by each of Kforce FA & Tech, Kforce FA & Tech Flex, Existing Borrowers, the RDI Systems Target, Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare and Kforce Healthcare Flex, and Subsidiary Guarantors, including all schedules and exhibits thereto (the "FA & Tech Joinder Agreement");

2. A Certificate Regarding Permitted Investment duly executed and delivered by Kforce, including all contribution documents, schedules and exhibits attached thereto, certifying that after giving effect to the Proposed FA & Tech Investment, Borrowers have Availability of not less than \$15,000,000;
3. A Pledge Agreement Supplement pursuant to which Kforce pledges and collaterally assigns to Administrative Agent all of its interest in the capital stock or equity interests of each of Kforce FA & Tech and Kforce FA & Tech Flex;
4. Allonges to the Amended and Restated Revolving Loan Notes duly executed by each of Kforce FA & Tech and Kforce FA & Tech Flex;
5. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of Kforce FA & Tech, including all schedules and exhibits thereto;
6. A Closing and Incumbency Certificate duly executed and delivered by an authorized officer or director of Kforce FA & Tech Flex, including all schedules and exhibits thereto;
7. All original certificates representing the equity interests of each of Kforce FA & Tech and Kforce FA & Tech Flex, as well as accompanying stock powers duly executed in blank, with signatures properly guaranteed;
8. Updated Liability and Property Insurance Certificates and Endorsements reflecting the inclusion of each of Kforce FA & Tech and Kforce FA & Tech Flex on such certificates and endorsements;
9. An opinion letter from the counsel of Existing Borrowers, Subsidiary Guarantors, the RDI Systems Target, Kforce Clinical Research, Kforce Clinical Research Flex, Kforce Healthcare, Kforce Healthcare Flex, Kforce FA & Tech and Kforce FA & Tech Flex as to such matters as shall be requested by Administrative Agent;
10. Good standing certificates for each of Kforce FA & Tech and Kforce FA & Tech Flex, issued by the Secretary of State or other appropriate official of the jurisdiction of incorporation or organization, as applicable, of each of Kforce FA & Tech and Kforce FA & Tech Flex, and each jurisdiction where the conduct of the business activities or ownership of property by each of Kforce FA & Tech and Kforce FA & Tech Flex necessitates qualification;
11. An out-of-state affidavit executed by the authorized officer or director executing the FA & Tech Joinder Agreement and the other Loan Documents on behalf of each of Kforce FA & Tech and Kforce FA & Tech Flex, which

affidavit is made for the benefit of Administrative Agent and the Lenders for compliance with the laws of the State of Florida relating to documentary stamp taxes; and

12. Such other documents, certificates, resolutions and reports as Administrative Agent may request.

- (iii) Each of Kforce FA & Tech and Kforce FA & Tech Flex shall have duly executed and delivered to Administrative Agent all documentation required by Administrative Agent in order to perfect, or maintain and continue the perfection of, Administrative Agent's Liens on the assets and stock of each of Kforce FA & Tech and Kforce FA & Tech Flex without interruption or release of any kind.

**3. Amendments to Credit Agreement.** The Credit Agreement is hereby amended as follows:

(a) By adding a new subclause (iv) to Section 1.4(b) of the Credit Agreement, so that Section 1.4(b) will read in its entirety as follows:

(b) Amounts, Outside Expiration Date. The Administrative Agent shall not have any obligation to issue or cause to be issued any Letter of Credit or to provide Credit Support for any Letter of Credit at any time if: (i) the maximum face amount of the requested Letter of Credit is greater than the Unused Letter of Credit Subfacility at such time; (ii) the maximum undrawn amount of the requested Letter of Credit and all commissions, fees, and charges due from the Borrowers in connection with the opening thereof would exceed Availability at such time; (iii) such Letter of Credit has an expiration date less than 30 days prior to the Stated Termination Date or more than 12 months from the date of issuance for standby letters of credit and 180 days for documentary letters of credit; and (iv) a Defaulting Lender exists, and such Lender or Borrowers have not entered into arrangements satisfactory to the Administrative Agent to eliminate any funding risk associated with the Defaulting Lender. With respect to any Letter of Credit which contains any "evergreen" or automatic renewal provision, each Lender shall be deemed to have consented to any such extension or renewal unless any such Lender shall have provided to the Administrative Agent, written notice that it declines to consent to any such extension or renewal at least thirty (30) days prior to the date on which the Letter of Credit Issuer is entitled to decline to extend or renew the Letter of Credit. If all of the requirements of this Section 1.4 are met and no Default or Event of Default has occurred and is continuing, no Lender shall decline to consent to any such extension or renewal.

(b) By adding the following new sentence to the end of Section 1.4(g) of the Credit Agreement:

Borrowers shall, on demand by the Administrative Agent, deposit with the Administrative Agent cash or Cash Equivalents as collateral, in form and substance satisfactory to the Administrative Agent, in an amount equal to each Defaulting Lender's Pro Rata Share of the face amount of each issued Letter of Credit or Credit Support applicable to such Defaulting Lender.

(c) By deleting Section 5.3(j) of the Credit Agreement, and by substituting in lieu thereof the following new Section 5.3(j):

(j) Any change in the name or state of organization of any Borrower or any Subsidiary, or in locations of Collateral, or form of organization, trade names under which any Borrower or any Subsidiary create Accounts, or to which instruments in payment of Accounts may be made payable, in each case at least thirty (30) days prior thereto, provided that, the Borrowers shall notify the Administrative Agent and the Lenders in writing at least ten (10) days prior to any change in the name of Government Solutions.

(d) By deleting Section 7.12 of the Credit Agreement, and by substituting in lieu thereof the following new Section 7.12:

7.12 **Guaranties.** No Credit Party shall make, issue, or become liable on any Guaranty, except (a) Guaranties of the Obligations in favor of the Administrative Agent, and (b) unsecured Guaranties of the Debt of another Credit Party or the Debt of a joint venture of a Credit Party, in an aggregate amount for all Credit Parties and joint ventures of Credit Parties not to exceed \$1,000,000, provided that Availability shall be equal to or greater than \$15,000,000 at the time of and after giving effect to the execution and delivery of such Guaranty (with such Guaranty being deemed to be fully funded on such date).

(e) By amending Section 7.13 of the Credit Agreement to delete the word “and” at the end of subclause (g) of Section 7.13, to replace the period at the end of subclause (h) of Section 7.13 with “; and”, and by adding the following new subclause (i) at the end of Section 7.13:

(i) Debt owing by a Credit Party pursuant to a Guaranty permitted under Section 7.12.

(f) By deleting the phrase “Subject to the written approval by the Required Lenders,” at the beginning of Section 7.26(b) of the Credit Agreement, so that Section 7.26(b) will read in its entirety as follows:

(b) Upon any Target becoming a Subsidiary of any Credit Party in connection with an Eligible Acquisition and if Borrowers desire that such Target be a “Borrower” rather than a “Guarantor”, the Borrowers shall provide the Administrative Agent with written notice thereof setting forth information in reasonable detail describing such Person and shall (a) cause such Person to execute a Joinder Agreement in substantially the same form as Exhibit G-2, (b) cause 100% of the Capital Stock of such Person to be delivered to the Administrative Agent (together with undated stock powers signed in blank) and pledged to the Administrative Agent pursuant to an appropriate pledge agreement(s) in form acceptable to the Administrative Agent and (c) cause such Person to deliver such

other documentation as the Administrative Agent may reasonably request in connection with the foregoing, including, without limitation, appropriate UCC-1 financing statements, landlord's waivers, certified resolutions and other organizational and authorizing documents of such Person, and favorable opinions of counsel to such Person all in form, content and scope reasonably satisfactory to the Administrative Agent.

(g) By deleting the text "(any such Lender, prior to the cure of such failure, being hereinafter referred to as a "Defaulting Lender")" set forth in Section 12.15(c) of the Credit Agreement.

(h) By deleting Exhibit G of the Credit Agreement in its entirety and by substituting in lieu thereof Exhibit G-1 and Exhibit G-2 attached hereto as Exhibit B.

(i) By adding the following new sentence to the end of the definition of "Eligible Accounts" contained in Annex A to the Credit Agreement:

Notwithstanding the foregoing, no Account acquired by any Borrower in connection with an Eligible Acquisition shall be included in the calculation of Eligible Accounts until such time as Administrative Agent and Administrative Agent's counsel shall have conducted, or caused to be conducted by Persons selected by Administrative Agent, all such due diligence reviews, audits and investigations (including, without limitation, environmental audits) as they shall have deemed reasonably necessary or appropriate with respect thereto, and Administrative Agent shall be satisfied in its sole and absolute discretion with the scope and the results thereof.

(j) By deleting the definitions of "Base Rate", "Defaulting Lender" and "Federal Funds Rate" contained in Annex A to the Credit Agreement and by substituting in lieu thereof the following new definitions, in proper alphabetical sequence:

"Base Rate" means for any day, a per annum rate equal to the greater of (a) the Prime Rate for such day; (b) the Federal Funds Rate for such day, plus 0.50%; or (c) the LIBOR Rate for a 30 day interest period as determined on such day, plus 1.0%.

"Defaulting Lender" means any Lender that (a) fails to make any payment or provide funds to the Administrative Agent or any Borrower as required hereunder or fails otherwise to perform its obligations under any Loan Document, and such failure is not cured within one Business Day, or (b) is the subject of any bankruptcy or any insolvency proceeding; provided that, solely for the purpose of determining a Lender's right to vote on matters relating the Loan Documents and to share in payments, fees and Collateral proceeds thereunder, a Lender shall not be deemed to be a "Defaulting Lender" on any date of determination unless it has failed to make any payment or provide funds to the Administrative Agent or any Borrower as required hereunder or failed otherwise to perform its obligations under any Loan Document and such failure has not been cured on or before such date of determination.

“Federal Funds Rate” means (a) the weighted average of interest rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on the applicable Business Day (or on the preceding Business Day, if the applicable day is not a Business Day), as published by the Federal Reserve Bank of New York on the next Business Day; or (b) if no such rate is published on the next Business Day, the average rate (rounded up, if necessary, to the nearest 1/8 of 1%) charged to Bank on the applicable day on such transactions, as determined by the Administrative Agent.

(k) By adding the following new definition of “Prime Rate” to Annex A to the Credit Agreement, in proper alphabetical sequence:

“Prime Rate” means the rate of interest announced by Bank from time to time as its prime rate. Such rate is set by Bank on the basis of various factors, including its costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above or below such rate. Any change in such rate announced by Bank shall take effect at the opening of business on the day specified in the public announcement of such change.

**4. Consent Regarding AlliantCorps, LLC.** Borrowers have requested that Administrative Agent and Required Lenders not require (a) the joinder of AlliantCorps, LLC, a Nevada limited liability company and subsidiary of the RDI Systems Target (“AlliantCorps”), as a Guarantor pursuant to Section 7.26(a) of the Credit Agreement and (b) the delivery of the other documents required by Section 7.26(a) of the Credit Agreement relating to AlliantCorps. Administrative Agent and Required Lenders hereby consent to AlliantCorps (i) not joining as a Guarantor under the Credit Agreement and (ii) not delivering the other documents required by Section 7.26(a) of the Credit Agreement relating to AlliantCorps, provided that, AlliantCorps shall be required to be joined as a Guarantor under the Credit Agreement and Credit Parties shall be required to deliver all other documents required under Section 7.26 (a) relating to AlliantCorps if any Credit Party or any combination of Credit Parties makes any Investments in or to AlliantCorps in an aggregate amount equal to or exceeding \$1,000,000.

**5. Ratification and Reaffirmation.** Each Borrower hereby ratifies and reaffirms the Obligations, each of the Loan Documents and all of such Borrower’s covenants, duties, indebtedness and liabilities under the Loan Documents.

**6. Acknowledgments and Stipulations.** Each Borrower acknowledges and stipulates that the Credit Agreement, as amended by the Amendment, and the other Loan Documents executed by such Borrower are legal, valid and binding obligations of such Borrower that are enforceable against such Borrower in accordance with the terms thereof; all of the Obligations are owing and payable without defense, offset or counterclaim (and to the extent there exists any such defense, offset or counterclaim on the date hereof, the same is hereby waived by such Borrower); the security interests and liens granted by each Borrower in favor of Lender are duly perfected, first priority security interests and liens subject only to Permitted Liens; and the unpaid principal amount of the Loans and the issued and outstanding Letters of Credit on and as of the close of business on December 15, 2008 totaled \$50,794,065.54. Each Borrower covenants and agrees that it will diligently enforce any rights and remedies it may have under the RDI Stock Purchase Agreement from time to time.

**7. Representations and Warranties.** Each Borrower represents and warrants to Administrative Agent and Lenders, to induce Administrative Agent and Lenders to enter into this Amendment, that no Default or Event of Default exists on the date hereof; the execution, delivery and performance of this Amendment have been duly authorized by all requisite corporate action on the part of each Borrower and this Amendment has been duly executed and delivered by each Borrower; and all of the representations and warranties made by each Borrower in the Credit Agreement are true and correct on and as of the date hereof.

**8. Reference to Credit Agreement.** Upon the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement,” “hereunder,” or words of like import shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

**9. Breach of Amendment.** This Amendment shall be part of the Credit Agreement and a breach of any representation, warranty or covenant herein shall constitute an Event of Default.

**10. Conditions Precedent.** The effectiveness of the consents contained in Section 2 hereof, the amendments contained in Section 3 hereof, and the consent contained in Section 4 hereof are subject to the satisfaction of each of the following conditions precedent, in form and substance satisfactory to Administrative Agent, unless satisfaction thereof is specifically waived in writing by Administrative Agent:

(a) No Default or Event of Default shall exist on the date hereof;

(b) Administrative Agent’s receipt of one or more duly executed counterparts of this Amendment from Existing Borrowers, Subsidiary Guarantors and Required Lenders;

(c) Administrative Agent’s receipt of duly certified resolutions from an authorized officer of each Existing Borrower and each Subsidiary Guarantor, in the form of the resolutions attached hereto as Exhibit C;

(d) Administrative Agent’s receipt of an out-of-state affidavit executed by each authorized officer or director executing this Amendment on behalf of each Existing Borrower and each Subsidiary Guarantor; and

(e) Administrative Agent’s receipt of such other documents, certificates, resolutions and reports as Administrative Agent may reasonably request.

**11. Expenses of Lender.** Each Borrower, jointly and severally, agrees to pay, **on demand**, all costs and expenses incurred by Administrative Agent in connection with the preparation, negotiation and execution of this Amendment and any other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Administrative Agent’s legal counsel and any taxes or expenses associated with or incurred in connection with any instrument or agreement referred to herein or contemplated hereby.

**12. Governing Law.** This Amendment shall be governed by and construed in accordance with the internal laws of the State of Georgia.

**13. Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

**14. No Novation, etc.** Except as otherwise expressly provided in this Amendment, nothing herein shall be deemed to amend or modify any provision of the Credit Agreement or any of the other Loan Documents, each of which shall remain in full force and effect. This Amendment is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction, and the Credit Agreement as herein modified shall continue in full force and effect.

**15. Counterparts; Telecopied Signatures.** This Amendment may be executed in any number of counterparts and by different parties to this Amendment on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile or electronic mail transmission shall be deemed to be an original signature hereto.

**16. Further Assurances.** Each Borrower agrees to take such further actions as Administrative Agent shall reasonably request from time to time in connection herewith to evidence or give effect to the amendments set forth herein or any of the transactions contemplated hereby.

**17. Section Titles.** Section titles and references used in this Amendment shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto.

**18. Release of Claims.** To induce Administrative Agent and Lenders to enter into this Amendment, each Subsidiary Guarantor and each Borrower hereby releases, acquits and forever discharges Administrative Agent and Lenders, and all officers, directors, agents, employees, successors and assigns of Administrative Agent and Lenders, from any and all liabilities, claims, demands, actions or causes of action of any kind or nature (if there be any), whether absolute or contingent, disputed or undisputed, at law or in equity, or known or unknown, that such Subsidiary Guarantor or such Borrower now has or ever had against Administrative Agent or any Lender arising under or in connection with any of the Loan Documents or otherwise. Each of Subsidiary Guarantor and each Borrower represents and warrants to Administrative Agent and Lenders that such Subsidiary Guarantor or such Borrower, as applicable, has not transferred or assigned to any Person any claim that such Subsidiary Guarantor or such Borrower, as applicable, ever had or claimed to have against Administrative Agent or any Lender.

**19. Waiver of Jury Trial.** To the fullest extent permitted by applicable law, the parties hereto each hereby waives the right to trial by jury in any action, suit, counterclaim or proceeding arising out of or related to this Amendment.

**20. Reaffirmation of Guaranty.** Each undersigned Subsidiary Guarantor hereby (i) consents to Borrowers' execution and delivery of this Amendment and of the other documents, instruments or agreements Borrowers agree to execute and deliver pursuant hereto; (ii) agrees to be bound by this Amendment; and (iii) affirms that nothing contained therein shall modify in any respect whatsoever its guaranty of the Obligations and reaffirms that such guaranty is and shall remain in full force and effect.

[Signatures commence on following page.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

**BANK OF AMERICA, N.A.**, as Administrative Agent  
and a Lender

By: /s/ Andrew A. Doherty

Name: Andrew A. Doherty

Title: Senior Vice President

**PNC BANK, NATIONAL ASSOCIATION**,  
as a Lender

By: /s/ Jerold Slutsky

Name: Jerold Slutsky

Title: Vice President

**THE CIT GROUP / BUSINESS CREDIT, INC.**,  
as a Lender

By: [INTENTIONALLY OMITTED]

Name: [INTENTIONALLY OMITTED]

Title: [INTENTIONALLY OMITTED]

**WACHOVIA BANK, NATIONAL ASSOCIATION**,  
as Lender

By: /s/ Lynn E. Culbreath

Name: Lynn E. Culbreath

Title: Senior Vice President

**“BORROWERS”**

**KFORCE INC.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[CORPORATE SEAL]

**KFORCE GOVERNMENT SOLUTIONS, INC.**, a  
Pennsylvania corporation and successor by merger to  
Bradson Corporation

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[CORPORATE SEAL]

**“SUBSIDIARY GUARANTORS”**

**KFORCE AIRLINES, INC.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[CORPORATE SEAL]

**KFORCE.COM, INC.**, a Florida corporation

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[CORPORATE SEAL]

**KFORCE FLEXIBLE SOLUTIONS, LLC**, a Florida  
limited liability company

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[SEAL]

**KFORCE GOVERNMENT HOLDINGS INC.**, a  
Florida corporation

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[CORPORATE SEAL]

**KFORCE STAFFING SOLUTIONS OF CALIFORNIA, LLC**, a  
Florida limited liability company

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[SEAL]

**KFORCE GLOBAL SOLUTIONS, INC.** formerly  
known as Provident Computer Consultants, Inc.,  
a Pennsylvania corporation

By: /s/ Judy M. Genshino-Kelly

Name: Judy M. Genshino-Kelly

Title: Treasurer

[CORPORATE SEAL]

**ROMAC INTERNATIONAL, INC.,**  
a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer  
[CORPORATE SEAL]

**KFORCE SERVICES CORP.,**  
a Florida corporation

By: /s/ Judy M. Genshino-Kelly  
Name: Judy M. Genshino-Kelly  
Title: Treasurer  
[CORPORATE SEAL]

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of July 1, 2003 between Kforce Inc., a Florida corporation (the "Employer"), and Howard Sutter (the "Executive").

### BACKGROUND

The Employer desires to continue to obtain the benefit of services by the Executive, and the Executive desires to continue to render services to the Employer.

The Compensation Committee of the Board of Directors of the Employer has determined that it is in the Employer's best interest and that of its shareholders to recognize the substantial contribution that the Executive has made and is expected to make in the future to the Employer's business and to continue to retain Executive's services in the future.

The Employer and the Executive desire to set forth in this Agreement the terms and conditions of the Executive's employment with the Employer. Accordingly, in consideration of the mutual covenants and representations set forth below, the sufficiency of which is hereby acknowledged, the Employer and the Executive agree as follows:

### TERMS

#### 1. EMPLOYMENT.

The Executive agrees to continue employment with the Employer (and one or more of the Employer's subsidiary corporations if and when assigned by Employer) to render the services specified in this Agreement upon the terms and conditions and for the compensation provided in this Agreement, and Employer agrees to so employ Executive. All compensation paid to the Executive by the Employer or any subsidiary of the Employer, and all benefits and perquisites received by the Executive from the Employer or any of its subsidiaries, will be aggregated in determining whether the Executive has received the compensation and benefits provided for in this Agreement.

#### 2. TERM OF EMPLOYMENT.

(a) End of Term. The term of the employment of the Executive under this Agreement will be for the period commencing on the date of this Agreement and ending on the earliest of.

(i) one year after notice of termination of this Agreement is given by the Employer to the Executive;

(ii) the date of termination of the Executive's employment by the Executive at Executive's election and without "Good Reason" (as defined in Section 9 of this Agreement);

(iii) the date of termination of the Executive's employment by the Employer for "Cause" (as defined in Section 8 of this Agreement) or by the Employer without Cause in accordance with Section 9 or by the Executive for Good Reason pursuant to Section 9;

(iv) the date of the Executive's death; or

(v) the Disability Effective Date (as such term is defined in Section 5 of this Agreement) following the Executive's Disability (as such term is defined in Section 5 of this Agreement).

It is understood that at each and every moment of time the remaining term of employment hereunder shall be one year, unless this Agreement or Executive's employment is terminated in accordance with the provisions of this Section 2.

(b) Date of Termination. As used in this Agreement the term "Date of Termination" means (i) if the Executive's employment is terminated by the Employer pursuant to clause (i) of Section 2(a) above, the date that is one year after the date of the Executive's receipt of the notice of termination of this Agreement or any later date specified in such notice, as the case may be, (ii) if the Executive terminates Executive's employment at Executive's election and without Good Reason pursuant to clause (ii) of Section 2(a), the date of the Employer's receipt of the notice of termination from the Executive or any later date specified in such notice, as the case may be, (iii) if the Executive's employment is terminated by the Employer for Cause or by the Employer without Cause pursuant to Section 9 of this Agreement, or by the Executive for Good Reason, fifteen days after the date of receipt of the notice of termination by the Executive or the Employer, respectively, or any later date specified in such notice, as the case may be, (iv) if the Executive's employment terminates by reason of the Executive's voluntary retirement, the date that such retirement becomes effective in accordance with the Employer's plans and policies; and (v) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date (as that term is defined in Section 5 of this Agreement).

### 3. SERVICES TO BE RENDERED; EXCLUSIVITY.

(a) Service. During the term of the Executive's employment under this Agreement, the Executive shall perform the duties of Vice President, or any reasonably comparable duties that may be assigned to the Executive from time to time.

(b) Full Time Efforts. During the term of this Agreement and excluding any periods of vacation, family or sick leave or holidays to which the

Executive is entitled, the Executive shall devote Executive's full business time and energy to the business, affairs and interests of the Employer and its subsidiaries, and matters related thereto, and shall use Executive's reasonable commercial efforts and ability to promote the interests of the Employer and its subsidiaries. The Executive agrees that he/she will diligently endeavor to promote the business, affairs and interests of the Employer and its subsidiaries and that Executive will perform services contemplated hereby in accordance with the policies established by the Employer from time to time. The Executive shall serve without additional remuneration in such senior executive capacities for one or more direct or indirect subsidiaries of the Employer as the Employer may from time to time request, subject to appropriate authorization by the subsidiary or subsidiaries involved and any limitations under applicable law and indemnification on the same terms as the Executive is indemnified by the Employer. The failure of the Executive to discharge an order or perform a function because the Executive reasonably and in good faith believes such would violate a law or regulation or be dishonest shall not be deemed a breach by Executive of Executive's obligations or duties under this Agreement and shall not entitle the Employer to terminate this Agreement pursuant to any of its provisions.

(c) Certain Permissible Activities. The Executive may serve as a director or in any other capacity of any business enterprise, including an enterprise whose activities may involve or relate to the business of the Employer or any of its subsidiaries but only if such service is expressly approved by the Employer in writing. The Executive may (i) make and manage personal business investments of Executive's choice, (ii) teach at educational institutions and deliver lectures, and (iii) serve in any capacity with any civic, educational or charitable organization, or any governmental entity or trade association, in each such case without seeking or obtaining approval by the Employer so long as such activities and service do not materially interfere or conflict with the performance of Executive's duties under this Agreement. It is agreed that to the extent that the Employer shall have approved any service of the Executive pursuant to the first sentence of this Section 3(c) prior to a Change in Control Date (as defined in Section 10 below), or to the extent that the Executive may have engaged in activities pursuant to the second sentence of this Section 3(c) prior to such Change in Control Date, the continued conduct of such activities or the conduct of activities similar in nature and scope thereto during the two years subsequent to such Change in Control Date shall be permissible and not in violation of any provisions of this Agreement and the previously obtained Employer approval may not be revoked or limited in any material respect during the two years following such Change in Control Date.

#### 4. COMPENSATION AND BENEFITS.

(a) Base Salary. The Employer agrees that the Executive will be paid for Executive's services under this Agreement a salary at the annual rate of at least \$195,000, payable in periodic installments in accordance with the Employer's normal salary payment dates for the Executive. Such salary as in effect from time to time is referred to in this Agreement as the Executive's "Base Salary."

(b) Additional Benefits. The Executive shall also be entitled during the term of this Agreement to all rights and benefits for which Executive is otherwise eligible under any bonus plan, stock option plan, stock purchase plan, participation or extra compensation plan, supplemental executive retirement plan, deferred compensation plan, profit-sharing plan, life, medical and dental insurance policy, director and officer liability insurance plan or indemnification program, vacation, sick leave, family leave and holiday program or plan, or plans that confer the use of automobiles or condominiums (and pay the related expenses thereof) or that pay for club membership fees or tax or financial counseling or other plans or benefits, in any such case, which the Employer or any of its subsidiaries (i) may provide for the Executive or (ii) provided the Executive is eligible to participate therein, may provide generally to officers of the Employer (collectively, "Additional Benefits"). This Agreement shall not affect adversely (from the perspective of the Executive) the provisions of any other compensation, retirement or other benefit program or plan of the Employer or any of its subsidiaries and shall not be considered to be a guarantee that the Executive will receive any awards or other benefits under any plans, policies or arrangements which are performance-related. Moreover, Executive's participation in any such plan shall be subject to the provisions of applicable law, including the Employee Retirement Income Security Act of 1974, as amended.

(c) Individual Benefits. The Employer shall continue to provide to the Executive such individual perquisites as are in effect for Executive as of the first day of Executive's employment under this agreement.

(d) Expense Reimbursement. The Employer agrees to reimburse the Executive in full for all such reasonable and necessary business, entertainment and travel expenses incurred or expended by Executive in connection with the performance of Executive's duties under this Agreement; provided the Executive submits to the Employer vouchers or expense statements satisfactorily evidencing such expenses as may be reasonably required by the Employer and such expenses are in accordance with any applicable corporate policy.

(e) Limitations on Reductions. The Employer shall have the right to reduce one or more Additional Benefits but only in conjunction with a corollary reduction of such benefits applicable to all of the Employer's officers. Any increase in the Executive's Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

## 5. TERMINATION UPON DISABILITY.

(a) Continuation of Benefits upon Disability. If the Executive becomes totally and permanently unable to perform Executive's duties because of any Disability (as defined below) during the term of Executive's employment under

this Agreement, the Executive's full-time employment under this Agreement shall terminate effective on the thirtieth day after the Executive's receipt of written notice of termination from the Employer (such thirtieth day being referred to in this Agreement as the "Disability Effective Date"). In addition to the payments specified in Section 6 below, in the event of termination of the Executive's employment pursuant to this Section 5, the Employer shall continue to pay or provide the Executive the following:

(i) until the earliest to occur of the Executive's death, the Executive's 65th birthday, two years after the Disability Effective Date or the date of the Executive's return to full-time employment hereunder pursuant to Section 5(f) (such earliest day being referred to herein as the "Disability Termination of Benefits Date") the Base Salary, medical, dental and other insurance and welfare type Additional Benefits in which the Executive was participating immediately prior to the Disability Effective Date (including, without limitation, medical, dental, life and disability insurance), each such benefit to be continued in a manner no less favorable to the Executive than the benefit to which Executive was entitled immediately prior to the Disability Effective Date; provided, however, if the Executive's death occurs during the two years after the Disability Effective Date, the Employer shall continue to pay the Base Salary and to pay or provide medical, dental and other insurance and welfare type benefits, on the basis described in this clause (i), to the Executive's family members who were covered for such benefits immediately prior to the Executive's death for the balance of such two year period;

(ii) until the Disability Effective Date, a continuation of vesting of all unvested stock options granted by the Employer to the Executive, such vesting to occur in accordance with the terms of each such grant as in effect on the Disability Effective Date and upon the assumption that no termination of employment had occurred; provided, however, if the Executive's death occurs during the two years immediately after the Disability Effective Date or if a Change in Control occurs prior to the Disability Effective Date, such vesting shall include any vesting which would occur upon the Executive's death or a Change in Control during employment with the Employer; and provided, further, that, if and to the extent further vesting is prohibited by the terms of anyone or more of such grants or otherwise, the Executive shall be entitled to in-lieu cash payments from the Employer on each date (each a "Vesting Date") when vesting would have occurred absent such prohibition, but in no event beyond two years following the Disability Effective Date, equal to the spread on such Vesting Date between the exercise price and fair market value of stock subject to stock options that would have otherwise vested on such Vesting Date; and provided, further, that if, after the Disability Effective Date, it is or becomes impossible on any date to continue to calculate any future in-lieu cash payments based on such continuation of vesting, the Executive shall thereupon be entitled immediately to the additional vesting which would normally have occurred during such two year period following the Disability Effective Date with respect to the affected type of in-lieu cash payments described

above and shall be entitled immediately to receive payment of the amount specified for such type of in-lieu cash payments based on such additional vesting as of such date; and

(iii) until the Disability Termination of Benefits Date, if the Executive is a participant in such plans on the Executive's Disability Effective Date, a continuation of crediting of additional years of cumulative service (for all purposes, including for purposes of accrual and vesting of benefits and equity-based incentives) under any Executive Retirement Plan, Deferred Compensation Plan and/or Senior Supplemental Executive Retirement Plan (collectively, the "SERP") in accordance with the terms of the SERP and upon the assumption that no termination of employment had occurred; provided, however, that if the Disability Termination of Benefits Date occurs due to the Executive's death during the two years immediately after the Disability Effective Date or if a Change in Control occurs prior to the Disability Termination of Benefits Date, such continuation shall include any further accrual and vesting which would occur upon the Executive's death or a Change in Control during employment with the Employer; and

(b) Offset. The obligations of the Employer to make payments under this Agreement to the Executive, pursuant to this Section 5, following Executive's Disability shall be reduced prospectively to the extent that the Executive receives payment of amounts under any salary continuation or similar feature contained in any disability insurance policy covering the Executive or under any salary continuation or similar feature under Social Security or any similar federal, state or local program. In addition, any medical, dental and other insurance and welfare type Additional Benefits to be provided by the Employer pursuant to clause (i) of Section 5(a) shall be secondary to any similar benefits provided by Social Security, Medicare, any private insurance maintained by or covering the Executive or any other similar plan or program covering the Executive. The Executive shall provide to the Employer upon written request from time to time a certification as to the types and amounts of the benefits referred to in the first two sentences of this Section 5(b) received by the Executive or to which Executive is entitled.

(c) Substitution of Benefits. If the Executive's full-time services are terminated due to Executive's Disability and the Executive is entitled under the terms of this Agreement to, but is no longer eligible under the relevant plan for, Additional Benefits because of such termination, the Executive (or in the event of Executive's death prior to the date that is two years after the Disability Effective Date, Executive's designated Beneficiaries (as defined in Section 7 below) shall be entitled to, and the Employer shall provide, to the extent required by in this Agreement, benefits substantially equivalent to such Additional Benefits to which the Executive was entitled immediately prior to Executive's Disability and shall do so for the period during which Executive remains entitled to receive such Additional Benefits as provided in this Section 5. With respect to the continuation of such benefits, the Executive or Executive's Beneficiaries (as such term is defined in Section 7) shall also be paid by the Employer an amount which, after federal, state,

local or other income or other taxes on such amount, shall reimburse the Executive (or Executive's Beneficiaries) for any additional tax liabilities incurred by the Executive (or any such Beneficiary) by reason of the receipt of such benefits after the termination of, rather than during the term of, Executive's employment under this Agreement.

(d) Partial Disability. In the event of a partial Disability of the Executive, it is understood that the Executive will provide such part-time services as may be consistent with the nature and extent of such Disability and Executive's position, duties, responsibilities and status specified in Section 3(a) of this Agreement, the Employer shall not be entitled to terminate the Executive's employment under this Agreement as a result of such partial Disability (provided that despite such partial disability, the Executive is able to substantially perform most of Executive's duties), and the terms and conditions of this Agreement shall remain in full force and effect after such partial Disability.

(e) Definition of Disability. As used in this Agreement, the term "Disability" means the failure of the Executive to render for six consecutive calendar months, or for shorter periods aggregating one hundred eighty or more business days in any twelve month period, the services contemplated by this Agreement which a physician selected by the Employer or its insurers (and reasonably acceptable to the Executive or the Executive's legal representative) determines is due to mental or physical illness or injury.

(f) Return from Disability. If and to the extent the Executive recovers from any such Disability, Executive will resume Executive's duties and responsibilities hereunder partially or fully to the extent of Executive's recovery, and the term of the Executive's employment under this Agreement shall be reinstated as if the Executive's employment had not been terminated pursuant to Section 5(a) of this Agreement.

## 6. DEATH OF THE EXECUTIVE.

(a) Vesting of Options. If the Executive dies while an employee of the Employer or while receiving any payments on account of a Disability as set forth in Section 5 above and during the term of this Agreement, all stock options standing in the name of the Executive shall immediately fully vest and must be exercised within 90 days of the date of the Executive's death by the appropriate beneficiary.

(b) Continuation of Base Salary and Benefits. If the Executive dies while an employee of the Employer and during the term of this Agreement, the Employer shall continue to pay the Base Salary and to pay or provide medical, dental and other insurance and welfare type benefits, on the basis described in Section 5(a)(i), to the Executive's family members who were covered for such benefits immediately prior to the Executive's death, for a period of two years following Executive's death.

7. PAYMENTS AND BENEFITS UPON TERMINATION OF EMPLOYMENT FOR ANY REASON.

On the Date of Termination of the Executive's employment under this Agreement for any reason whatsoever, the Executive's Base Salary will cease thereafter to accrue except as specifically provided in Sections 5, 6 or 9 and the , Executive (or in the event of Executive's death, Executive's designated beneficiaries, Executive's personal representative, or the executor or administrator of Executive's estate (Executive's "Beneficiaries")) will be entitled to such rights and benefits under the Employer's compensation and benefit plans, policies and arrangements in which the Executive is then a participant as may be provided for under such plans, policies and arrangements (which shall not be modified adversely to the Executive or Executive's Beneficiaries after Executive's Date of Termination). In addition, the Employer shall:

(a) pay and deliver to the Executive (or, in the event of Executive's death, to Executive's Beneficiaries) not later than thirty days after Executive's Date of Termination or such later date as the Executive or such Beneficiaries may request in writing, all amounts of money and all stock or other property owed to Executive by the Employer as of the Date of Termination, including but not limited to Executive's accrued Base Salary, any amounts payable in lieu of accrued vacation, amounts payable to Executive under any expense reimbursement plans or policies for expenses incurred through the Date of Termination, the amount of any bonus due under any incentive plan to the Executive for any bonus period or performance measurement cycle of the Employer that ended prior to the Date of Termination which remained unpaid on the Date of Termination and any compensation previously deferred by the Executive and any accrued interest on earnings on such deferred compensation to the extent not previously paid to the Executive;

(b) cause the trustee of any trusteed plan of the Employer to pay and deliver, and the Employer shall pay and deliver under any similar non-trusteed plan of the Employer, to the Executive (or, in the event of Executive's death, to Executive's Beneficiaries), at the earliest practicable date after payments become due under such plan, all money, stock and other property which such plans require to be paid or delivered or are otherwise payable or deliverable to Executive after the termination of Executive's employment;

(c) continue to insure the Executive (or, in the event of Executive's death, Executive's Beneficiaries) with respect to Executive's activities as a director, officer or Executive of the Employer or any of its subsidiaries, for a period of three years after such Date of Termination, under such policies of director and officer

liability insurance as Employer shall provide for its senior officers generally; provided, however, that if a Change in Control shall have occurred prior to such Date of Termination or shall thereafter occur, such policies of insurance shall be no less favorable to the Executive than such policies as may have been in effect for the Executive at any time during the one hundred twenty day period immediately preceding the Change in Control Date; and

(d) continue to honor such rights to indemnification as the Executive (or, in the event of Executive's death, Executive's Beneficiaries) may be entitled pursuant to any plan of indemnification or indemnification agreement in effect at the Date of Termination.

(e) The Executive immediately waives any right or entitlement to the payments and benefits described in Section 7 (a) - (d) above in the event that the Executive breaches any term or provision of this Agreement or the Confidentiality Agreement and Restrictive Covenant and in the event of such breach the Executive will pay to the Employer any damages the Employer may be able to recover, in addition to any other relief to which Employer may be entitled.

#### 8. TERMINATION OF EMPLOYMENT BY EMPLOYER FOR CAUSE.

(a) Definition of Cause. The Employer may terminate the Executive's employment under this Agreement if the termination is for Cause. For purposes of this Agreement, the Employer shall have "Cause" to terminate the Executive's employment under this Agreement if, and only if, any of the following shall occur:

(i) the Executive's conviction by a court of competent jurisdiction or entry of a guilty plea or a plea of nolo contendere for an act on the Executive's part constituting any felony; or

(ii) a willful breach by the Executive of any provisions of this Agreement if such breach results in demonstrably material injury to the Employer.

(iii) the Executive's willful dishonesty or fraud with respect to business or affairs of the Employer if such dishonesty or fraud results in demonstrable material injury to Employer.

(b) Procedural Requirements. The Executive's employment under this Agreement shall not be subject to termination for Cause without: (i) reasonable notice to the Executive setting forth the reasons for Employer's intention to terminate and specifying the particulars thereof in detail, and (ii) an opportunity for the Executive to cure any such breach, if possible, within thirty days after receipt of such notice.

9. TERMINATION OF EMPLOYMENT BY THE EXECUTIVE FOR GOOD REASON OR BY EMPLOYER WITHOUT CAUSE.

(a) Definition of Good Reason. The Executive may terminate Executive's employment under this Agreement and all of Executive's obligations under this Agreement to the Employer accruing after the date of such termination (other than Executive's obligations under Section 11, 12, 13, 18, and 26) if the termination is for "Good Reason," which for purposes of this Agreement is defined as:

(i) failure by the Employer to perform any of its obligations hereunder (including, but not limited to, Employer's obligations under Sections 3 and 4) other than an isolated, insubstantial and inadvertent failure not occurring in bad faith; or

(ii) the diminution of the Executive's salary and or a material diminution of the Executive's benefits, except in connection with the termination of the Executive's employment for permanent disability, Cause, as a result of the Executive's death or termination by the Executive other than for Good Reason;

(iii) any failure by the Employer to obtain the assumption of this Agreement by any successor or assignee of the Employer;

(iv) any attempt by the Employer to terminate the Executive for Cause which does not result in a valid termination for Cause.

(v) a relocation of the Executive's principal office to a location outside of Broward County, Florida or any requirement of excessive business travel by the Employer (as determined in the reasonable judgment of the Executive). Any termination by Employer for Good Reason will be effective only upon Employer's failure to cure following thirty days' prior written notice of the Good Reason from the Executive to the Employer.

(b) Employer's Termination Without Cause. The Employer may terminate the Executive's employment under this Agreement without Cause (as defined above) by written notice to the Executive. Any such termination shall become effective upon fifteen days, prior written notice from the Employer to the Executive.

(c) **Compensation and Benefits Upon Section 9 Termination.** In addition to the payments specified in Section 7 of this Agreement, in the event of termination of the Executive's employment pursuant to this Section 9, the Employer shall continue to pay or provide to the Executive the following:

(i) Salary through Date of Termination at the rate in effect immediately prior to the time a Notice of Termination is given plus any benefits and awards (including both cash and stock components) which pursuant to the terms of any Plans have been earned and otherwise payable, but which have not been paid;

(ii) As severance pay, and in lieu of any further salary for any period subsequent to the Date of Termination, an amount in cash equal to the annual Base Salary on the Date of Termination plus the average of the Executive's last two years' bonuses (the "Severance Payment"). For the purposes of the definition of "Severance Payment" the Company shall compute the average of the Executive's last two years' bonuses by including the greater of (A) the bonus, if any, already earned by the Executive at the time of termination related to the calendar year of the termination or (B) the bonus, if any, earned in the second full calendar year preceding the termination of the Executive, e.g. (if the Executive is terminated on August 1, 2005 (and this Section 9 is applicable), the Company shall include in the bonus calculation the greater of (A) the bonus, if any, earned by the Executive through August 1, 2005, or (B) the bonus, if any, earned by the Executive in calendar year 2003). Additionally, also for the purpose of the definition of "Severance Payment," in the event the Executive received a grant of stock, restricted stock or stock options during any relevant year (a "Grant"), then the Company shall compute the average of the Executive's last two years' bonuses by including: (i) in the case of a Grant consisting of a stock grant, the amount reported by the Company to the Internal Revenue Service relating to such stock grant for the relevant year; (ii) in the case of a Grant consisting of a restricted stock grant, the full grant price, computed for the purposes of this agreement by multiplying the number of granted restricted shares by the closing share price on the grant date, and; (iii) in the case of a Grant consisting of a stock option grant, the imputed present value of such options at the time of the grant, defined for purposes of this agreement as 50% of the exercise price. For example, if the Executive is terminated on October 1, 2003 (and this Section 9 is applicable) and the Executive received a bonus consisting of stock with a value reported to the Internal Revenue Service of \$400,000 in 2002, and a bonus consisting of options with an Option Value of \$425,000 in 2001, then the average bonus for calculating the Severance Payment will be \$412,500.

(iii) The Executive will have 90 days subsequent to the Date of Termination to exercise all stock options and restricted stock awards that have been granted and were vested at Date of Termination; and

(iv) All salary and benefits shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to the Executive. The Executive immediately waives any right or entitlement to the Severance Payment in the event that the Executive breaches any term or provision of this Agreement or the Confidential Information Agreement and Restrictive Covenant and in the event of such breach the Executive will pay to the

Employer an amount equal to any portion of the Severance Payment paid to the Executive prior the Executive's breach, in addition to any damages the Employer may be able to recover. The Employer shall not have any additional liability or obligation hereunder by reason of such termination.

(d) This Section 9 shall not apply to any termination of this Agreement with notice under Section 2(a)(i).

#### 10. CHANGE IN CONTROL.

(a) Effectiveness of Section. If at any time during the term of the Executive's employment by the Employer pursuant to this Agreement, a Change in Control of the Employer (as defined below) shall occur, the provisions of this Section 10 shall become effective without any limitation on any other rights the Executive may have under this Agreement. Sections (c) and (d) of this Section 10 shall become ineffective with respect to such Change in Control on the first anniversary of the date on which such Change in Control occurs (the "Change in Control Date") unless the Executive's employment has theretofore been terminated for any reason; provided, however, that if another Change in Control occurs after such first anniversary, Sections 10(c) and (d) shall become effective once again with respect to such subsequent Change in Control. If the Executive's employment so terminates prior to such first anniversary, the provisions of Sections 10(e) and (d) shall survive so long as the Executive or Executive's Beneficiaries are entitled to any benefits under this Agreement.

(b) Definition of Change in Control. For the purpose of this Agreement, a "Change in Control" shall mean:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty-five percent (25%) or more of either (A) the then outstanding shares of common stock of the Employer (the "Outstanding Employer Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Employer entitled to vote generally in the election of directors (the "Outstanding Employer Voting Securities"); provided, however, that for purposes of this clause (i), the following acquisitions shall not constitute a Change in Control: (u) any acquisition directly from the Employer, (w) any acquisition by the Employer, (x) any acquisition by any executive benefit plan (or related trust) sponsored or maintained by the Employer or any corporation controlled by the Employer, (y) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of clause (iii) of this Section 10 (b), or (z) any acquisition by David L. Dunkel or his family members; or

(ii) individuals who, as of the date of this Agreement, constitute the Board of Directors of the Employer (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors of the Employer (the “Board”); provided, however, that any individual becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the Employer’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Employer (a “Business Combination”), in each case, unless, following such Business Combination, (A) all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Employer Common Stock and Outstanding Employer Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Employer or all or substantially all of the Employer’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Employer Common Stock and Outstanding Employer Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any executive benefit plan (or related trust) of the Employer or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, twenty-five percent or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Employer of a complete liquidation or dissolution of the Employer.

(c) Certain Restrictions and Events Following Change in Control. If a Change in Control of the Employer occurs, then the following provisions shall apply:

(i) the Employer shall not be entitled to reduce, terminate or adversely (from the Executive's point of view) affect, pursuant to Section 4(b), any Additional Benefits which are described in Section 4(b) to which the Executive shall thereafter be entitled even in connection with a reduction in such benefits applicable to all of the Employer's officers who are of a similar class and station as those of the Executive. If the continuation of any benefit provided to the Executive violates any law or statute the Employer shall pay to the Executive the cash equivalent of any benefit lost by the Executive;

(ii) the Employer shall not be entitled to reduce, terminate, or adversely (from the Executive's point of view) affect the Executive's individual perquisites, as described in Section 4(c) and must maintain these benefits as currently enjoyed by the Executive immediately prior to any Change in Control and

(iii) all stock options, restricted stock awards, equity based incentive plans, SERP and similar grants theretofore or thereafter made which are unvested shall immediately fully vest effective as of the Change in Control Date.

(d) Provisions Applicable to Termination of Employment. If a Change in Control shall occur and the Executive's employment is thereafter terminated at any time prior to the first anniversary of the Change in Control Date by the Employer other than for Cause or by the Executive for Good Reason, then the Executive shall be entitled to receive the following:

(i) the Executive shall be entitled to all payments and benefits provided in Section 7;

(ii) the payments required by the provisions of clause (ii) of Section 9(c) shall be paid to the Executive in a lump sum in cash within ten days after the Date of Termination (or such later date as the Executive may elect);

(iii) the Executive shall receive as severance pay, and in lieu of any further salary subsequent to the Date of Termination and any Severance Payment referenced in Section 9(c)(ii) above, an amount in cash equal to two times the annual Base Salary on the Date of Termination. In addition, all benefits enjoyed by the Executive on the Date of Termination shall continue for a period of one year and 364 days after the Date of Termination. In addition, the Executive will receive the average of the last two years bonuses, which average shall be computed in the manner described in Section 9(c)(i) above. The severance sum shall be paid to the Executive within 30 days of the Date of Termination. If the continuation of any benefit provided to the Executive violates any law or statute the Employer shall pay to the Executive the cash equivalent of any benefit lost by the Executive; and

(iv) the Employer shall, at its sole expense as incurred, provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in Executive's sole reasonable discretion.

#### 11. EXCISE TAX.

In the event the amount payable to the Executive under Section 10(d) is subject to an excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Excise Tax"), or any similar tax, the Employer will pay the Executive an additional amount (the "Gross-up Payment") sufficient to put the Executive in the same after-tax position as if no Excise Tax had been incurred. For purposes of determining the Gross-up Payment, the Executive's tax rate will be deemed to be the highest marginal tax rate in effect in the year of payment, without regard to the phase-out of itemized deductions. The Gross-up Payment shall be payable within 30 days of the payment under Section 10(d), and the Employer shall provide the Executive with the calculations utilized to determine the amount of the Gross-up payment.

#### 12. PROPERTY.

(a) All right, title and interest in and to Intellectual Property (as defined below) shall be and remain the sole and exclusive property of the Employer. During the term of this Agreement, the Executive shall not remove from the Employer's offices or premises any documents, records, notebooks, files, correspondence, reports, memoranda or similar materials of or containing proprietary information, or other materials or property of any kind belonging to the Employer unless necessary or appropriate in accordance with the duties and responsibilities required by or appropriate for Executive's position and, in the event that such materials or property are removed, all of the foregoing shall be returned to their proper files or places of safekeeping as promptly as possible after the removal shall serve its specific purpose. The Executive shall not make, retain, remove and/or distribute any copies of any of the foregoing for any reason whatsoever except as may be necessary in the discharge of Executive's assigned duties and shall not divulge to any third person the nature of and/or contents of any of the foregoing or of any other oral or written information to which Executive may have access or with which for any reason Executive may become familiar, except as disclosure shall be necessary in the performance of Executive's duties. Upon the termination of the Executive's employment with the Employer, Executive shall leave with or return to the Employer all originals and copies of the foregoing then in Executive's possession, whether prepared by the Executive or by others.

(b) The Executive agrees that all right, title and interest in and to any innovations, designs, systems, analyses, ideas for marketing programs, and all copyrights, patents, trademarks and trade names, or similar intangible personal property which have been or are developed or created in whole or in part by the Executive: (i) at any time and at any place while the Executive is employed by the

Employer and which, in the case of any or all of the foregoing, are related to and used in connection with the business of the Employer; (ii) as a result of tasks assigned to the Executive by the Employer; or (iii) from the use of premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Employer (collectively, the "Intellectual Property"), shall be and remain forever the sole and exclusive property of the Employer. The Executive shall promptly disclose to the Employer all Intellectual Property, and the Executive shall have no claim for additional compensation for the Intellectual Property.

(c) The Executive acknowledges that all the Intellectual Property that is copyrightable shall be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Property may not be considered a work made for hire under the applicable provisions of the United States Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Executive may retain an interest in any Intellectual Property that is not copyrightable, the Executive hereby irrevocably assigns and transfers to the Employer any and all right, title, or interest that the Executive may have in the Intellectual Property under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. The Employer shall be entitled to obtain and hold in its own name all copyrights, patents, trade secrets, and trademarks with respect thereto.

(d) The Executive further agrees to reveal promptly all information relating to the Intellectual Property to appropriate officers of the Employer and to cooperate with the Employer and execute such documents as may be necessary or appropriate (i) in the event that the Employer desires to seek copyright, patent or trademark protection, or other analogous protection relating to the Intellectual Property, and when such protection is obtained, to renew and restore the same, or (ii) to defend any opposition proceedings in respect of obtaining and maintaining such copyright, patent or trademark protection, or other analogous protection.

(e) In the event the Employer is unable after reasonable effort to secure the Executive's signature on any of the documents referenced in Section 12(d) above, whether because of the Executive's physical or mental incapacity or for any other reason whatsoever, the Executive hereby irrevocably designates and appoints the Employer and its duly authorized officers and agents as the Executive's agent and attorney-in-fact, to act for and in Executive's behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution and issuance of any such copyright, patent or trademark protection, or other analogous protection, with the same legal force and effect as if executed by the Executive.

13. CONFIDENTIAL INFORMATION AGREEMENT AND RESTRICTIVE COVENANT.

Acceptance of this Agreement requires the Executive's separate signature and acceptance of the Confidential Information Agreement and Restrictive Covenant attached to this Agreement as Exhibit A.

14. ASSUMPTIONS BY SUCCESSOR.

The Employer will require any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Employer to (i) expressly assume and agree to perform this Agreement in the same manner and the same extent the Employer would be required to perform it as if no such succession had taken place; and (ii) notify the Executive of the assumption of this Agreement within ten days of such assumption. Failure of the Employer to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this agreement. As used in this Agreement, "Employer" shall mean Kforce Inc. and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise. However, this agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, and distributees, devisees and legatees.

15. NO SET-OFF.

Except as contemplated by Section 5(b), the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right, or action which the Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable, or benefits to be provided, to the Executive under any of the provisions of this Agreement, and, except as expressly provided in Sections 5(c), such amounts shall not be reduced whether or not the Executive obtains other employment.

16. INDEMNIFICATION.

The Employer and the Executive acknowledge that the Executive's service as an officer of the Employer exposes the Executive to risks of personal liability arising from, and pertaining to, the Executive's participation in the management of the Employer. The Employer shall defend, indemnify and hold harmless the Executive from any actual cost, loss, damages, attorneys fees, or liability suffered or incurred by the Executive arising out of, or connected to, the Executive's service as an officer of the Employer. The Employer shall not be obligated to indemnify the Executive if the cost, loss, damage, or liability results from the Executive's violation of the Securities Exchange Act of 1934, as amended, the Executive's violation of criminal law, a transaction from which the Executive

received an improper personal benefit, the Executive's violation of Section 607.0834 of the Florida Business Corporation Act (or any successor law), or the Executive's willful misconduct or a conscious disregard for the best interests of the Employer. The Employer will not have any obligation to the Executive under this section for any loss suffered if the Executive voluntarily pays, settles, compromises, confesses judgment for, or admits liability with respect to any matter, without the approval of the Employer. Within thirty days after the Executive receives notice of any claim or action which may give rise to the application of this section, the Executive shall notify the Employer in writing of the claim or action. The Executive's failure to timely notify the Employer of the claim or action will relieve the Employer from any obligation to the Executive under this section.

17. PRIOR EMPLOYMENT AGREEMENTS.

The Executive represents that he/she has not executed any agreement with any previous employer which may impose restrictions on Executive's employment with the Employer.

18. TRANSFERABILITY, SUCCESSORS AND ASSIGNS.

The rights and obligations of the Employer under this Agreement shall be transferable and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by or against its successors and assigns. No rights or obligations of the Executive hereunder shall be transferable or assignable by the Executive to any third party.

19. ATTORNEY FEES.

The prevailing party in any action brought to enforce the provisions of this Agreement shall be entitled, in addition to such other relief that may be granted, to a reasonable sum for attorney's fees and costs incurred by such party in enforcing this Agreement (including fees incurred on any appeal).

20. NO ORAL MODIFICATIONS.

No modifications or waivers of any provision hereof will be binding or valid unless in writing and executed by both parties.

21. WAIVER.

Either party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision or provisions, or prevent that party thereafter from enforcing each and every other provision of this Agreement. The rights granted the parties in this Agreement are cumulative and shall not constitute a waiver of either party's right to assert all other legal remedies available to it under the circumstances.

22. SEVERABILITY.

The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.

23. GOVERNING LAW AND BINDING EFFECT.

This Agreement was entered into in the State of Florida and shall be interpreted and construed in accordance with the laws of Florida.

24. CAPTIONS.

Captions and section headings used herein are for convenience only, are not of this Agreement, and shall not be used in construing this Agreement.

25. COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

26. NOTICE.

Any notice required or permitted to be given under this Agreement shall be sufficient if it is in writing and sent by hand delivery or by United States Express Mail service to the parties at the following addresses:

To the Employer:

1001 E. Palm Ave  
Tampa, Florida 33605  
Attn: David L. Dunkel  
Chief Executive Officer

To the Executive:

[ ]  
[ ]  
Attn: Howard Sutter

27. ARBITRATION.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Tampa, Florida in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered in the arbitrator's award in any court having jurisdiction. Such arbitration shall occur only after the parties have attempted to resolve the dispute or controversy by mediation under mutually agreeable terms.

28. ENTIRE AGREEMENT.

This Agreement, and the attached Exhibit A, comprise the entire agreement between the Executive and the Employer. This Agreement supersedes all prior agreements and understandings between the parties with respect to the subject matter hereof and may not be modified or terminated orally. No modification, termination, or attempted waiver shall be valid unless it is in writing and is executed by each of the parties.

IN WITNESS WHEREOF, the parties have executed this Employment Agreement as of July 1, 2003.

KFORCE, INC.

By: /s/ David L. Dunkel

David L. Dunkel

/s/ Howard Sutter

Howard Sutter

## EXHIBIT A

### CONFIDENTIALITY AGREEMENT AND RESTRICTIVE COVENANT

THIS AGREEMENT ("Agreement") dated as of July 1, 2003, is entered into by and between Kforce Inc., a Florida corporation (the "Employer") and Howard Sutter (the "Executive").

#### BACKGROUND

The Employer desires to employ or continue employing the Executive and the Executive wishes to accept or continue employment upon the terms and conditions set forth in the parties' Employment Agreement (the "Employment Agreement") and this Agreement. The Executive recognizes and agrees that because of Executive's employment with the Employer he/she has been and will be afforded an opportunity to learn confidential and proprietary information and to know of and/or become known to various customers, potential customers and employees of the Employer and to learn the Employer's business practices. The Executive recognizes that this is a valuable right, is of great personal benefit to Executive in Executive's career and therefore provides sufficient basis for the restrictive covenants contained in this Agreement. Also, as set forth in the Employment Agreement, the Employer agrees to pay the Executive significant severance pay under certain circumstances in consideration for the Executive's agreement not to compete with the Employer. Accordingly, in consideration of the mutual covenants and agreements set forth below, the parties agree as follows:

#### TERMS

1. Acknowledgement of Legitimate Business Interest of the Employer. The Executive acknowledges that as a result of Executive's employment with the Employer he/she has accepted and received trade secrets, valuable confidential business and professional information, substantial relationships with specific prospective or existing clients, contractors, or customers, and goodwill associated with the ongoing business of the Employer, all of which are of particular significance to the Employer and constitute legitimate business interests that the Employer has an interest in protecting. Therefore, the Executive agrees as follows:

(a) Confidential Information. Except for proper business purposes on Employer's behalf, at all times for the period of time commencing as of the date of this Agreement and ending on the first anniversary of the date of termination of the Executive's employment under the Employment Agreement (the "Restriction Period") the Executive agrees not to disclose or use any confidential information, including without limitation, information regarding research, strategy, developments, product designs or specifications, processes, "know-how," prices, suppliers, customers, contractors, candidates, clients, costs or any other knowledge or information with respect to confidential information or trade secrets of the

Employer. The Executive acknowledges and agrees that all notes, lists, data, records, business forms, studies, marketing materials, training materials, reports, sketches, plans, unpublished memoranda and other documents (whether electronic or hardcopy) concerning any information relating to the Employer's business, held or created by the Executive, whether confidential or not, are the property of the Employer and will not be used or retained by Executive except on behalf of employer in the course of Executive's employment, and will not be retained by Executive upon termination of Executive's employment.

(b) Non-Solicitation. At all times during the Restriction Period, the Executive shall not, directly or indirectly, solicit, induce, influence, combine or conspire with, or attempt to induce, any executive, employee, vendor, client, contractor, or supplier of the Employer to terminate their employment, or other relationship with, or compete against the Employer or any present or future affiliates of the Employer in the Employer's industry (the "Business"). In particular, and without in any way limiting the foregoing, the Executive agrees that during the Restriction Period, whether the termination shall be voluntary or involuntary, with or without cause, or for any other reason whatsoever, the Executive shall not, directly or indirectly: (a) attempt to hire any other executive or employee of the Employer, including persons on assignment with clients, or otherwise encourage or attempt to encourage any other executive or employee of the Employer to leave employment or terminate an assignment with the Employer; or (b) in any manner or at any time, solicit or encourage any person, firm, corporation, or any business entity who are customers, clients, contractors, or prospective clients or contractors of the Employer to cease or refrain from doing business with the Employer. Executive further agrees, during the Restriction Period, to refrain from directly or indirectly soliciting business from any client of Employer with whom Executive had contact during the term of Executive's employment with Employer. In the event the Executive breaches any term contained in this Section, the Executive immediately waives any right or entitlement to the severance payments described in the Employment Agreement (which includes both the Severance Payment referenced in Section 9(c)(ii) of the Employment Agreement as well as any other severance payable pursuant to Section 10(d)(iii) of the Employment Agreement) and will pay to the Employer an amount equal to any portion of the severance payments paid to the Executive prior to the Executive's breach, in addition to any damages the Employer may be able to recover.

(c) Exception. Notwithstanding anything to the contrary contained in this Agreement, in the event: (i) the Executive resigns for "Good Reason" (as such term is defined in Section 9(a) of the Employment Agreement) or is terminated without "Cause" (as such term is defined in Section 8 of the Employment Agreement), and (ii) the Executive delivers a written statement to the Company specifically releasing the Company from paying any Severance Payment as contemplated by Section 9(c)(ii) of the Employment Agreement (in a form reasonably acceptable to the Company), then the provisions of Section 1(b) of this Agreement shall have no force or effect.

2. Severability and Specific Performance.

(a) If, in any judicial proceedings, a court shall refuse to enforce any of the covenants included in Paragraph 1(a) and (b), above, then such unenforceable covenant shall be amended to relate to such lesser period or geographical area as shall be enforceable. In the event the Employer should bring any legal action or other proceeding against the Executive for enforcement of this Agreement, the calculation of the Restriction Period, if any, shall not include the period of time commencing with the filing of legal action or other proceeding to enforce this Agreement through the date of final judgment or final resolution including all appeals, if any, of such legal action or other proceeding unless the Employer is receiving the practical benefits of Paragraph 1(a) and/or (b), as applicable, during such time.

(b) The Executive hereby acknowledges that the restrictions on Executive's activity as set forth in Paragraphs 1(a) and (b) hereof are required for the Employer's reasonable protection and are a material inducement for the Employer to retain or continue to retain the services of Executive. The Executive hereby agrees that in the event of the violation by Executive of any such provisions of this Agreement, the Employer will suffer irreparable harm and will be entitled to equitable relief, including an order requiring specific performance of the terms hereof, in addition to any damages that may be recoverable.

3. Miscellaneous Provisions.

(a) Notice: All notices, requests, demands, claims, and other communications under this Agreement will be in writing. Any notice, request, demand, claim, or other communication under this Agreement shall be deemed duly given if delivered personally, telecopied (if confirmed), or sent by registered or certified mail (return receipt requested) addressed to the intended recipient as set forth below (or at such other address for a party as shall be specified by like notice):

If to Executive:

[ ]

[ ]

Attn: Howard Sutter

If to the Employer:

Kforce Inc.

1001 East Palm Avenue

Tampa, Florida 33605

Attn: David L. Dunkel

Chief Executive Officer

(b) Entire Agreement, Amendments. Except for the Employment Agreement and other agreements and writings expressly provided for therein, this Agreement contains the entire agreement and understanding of the parties to this Agreement relating to the subject matter of this Agreement, and supersedes any prior and contemporaneous understandings, agreements, or representations of every nature between the parties. This Agreement may not be changed or modified, except by an agreement in writing signed by each of the parties to this Agreement.

(c) Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

(d) Governing Law. This Agreement shall be construed and enforced in accordance with the laws of Florida, without regard to the conflict-of-laws provisions thereof.

(e) Invalidity. In case anyone or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it or them enforceable.

(f) Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of such shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

KFORCE, INC.

By: /s/ David L. Dunkel  
David L. Dunkel

/s/ Howard Sutter  
Howard Sutter

## AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of December 30, 2008 between Kforce Inc., a Florida corporation (the "Employer" or the "Company") and Howard Sutter (the "Executive").

### BACKGROUND

The Executive and the Employer are parties to that certain Employment Agreement dated effective July 1, 2003 (the "*Employment Agreement*"). The Employment Agreement has been continually operated in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules, regulations, and transitional guidance promulgated thereunder and with respect thereto (collectively, "Section 409A"). In order to ensure that the Employment Agreement complies in form with Section 409A, the Executive and the Employer wish to amend the Employment Agreement in the manner herein provided.

Accordingly, in consideration of the foregoing, and of the respective agreements of the parties herein, the Employer and the Executive agree as follows:

### TERMS

1. The following sentence is added to the Employment Agreement as the last sentence in Section 5(c):

"Any such reimbursement for additional tax liabilities shall be paid no later than the end of the calendar year following the calendar year in which the Executive or Executive's Beneficiaries remit the related taxes."

2. Section 5(e) of the Employment Agreement is amended in its entirety to read as follows:

"(e) Definition of Disability. As used in this Agreement, the term "Disability" means the Executive meets one of the following requirements:

(i) The Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or

(ii) The Executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer.

3. Section 5(f) of the Employment Agreement is deleted.

4. The first sentence of Section 7 is amended in its entirety to read as follows:

“On the Date of Termination of the Executive’s employment under this Agreement for any reason whatsoever, the Executive’s Base Salary will cease thereafter to accrue except as specifically provided in Sections 5, 6 or 9 and the Executive (or in the event of Executive’s death, Executive’s designated beneficiaries, Executive’s personal representative, or the executor or administrator of Executive’s estate (Executive’s “Beneficiaries”)) will be entitled to such rights and benefits under the Employer’s compensation and benefit plans, policies and arrangements in which the Executive is then a participant as may be provided for under such plans, policies and arrangements (which shall not be modified adversely to the Executive or Executive’s Beneficiaries after Executive’s Date of Termination).”

5. Section 7(a) of the Employment Agreement is amended by the deletion of the clause “or such later date as the Executive or such Beneficiaries may request in writing.”

6. The last sentence in Section 9(a) of the Employment Agreement is amended in its entirety to read as follows:

“The Executive’s termination of employment will not constitute a termination for Good Reason unless the Executive first provides written notice to the Employer of the existence of the Good Reason within ninety days following the effective date of the occurrence of the Good Reason, and the Good Reason remains uncorrected by the Employer for more than thirty days following such written notice of the Good Reason from the Executive to the Employer, and the effective date of the Executive’s termination of employment is within one year following the effective date of the occurrence of the Good Reason.”

7. The following sentence is added to the Employment Agreement as the last sentence in Section 9(c)(ii):

“The severance pay amount shall be paid to the Executive not later than thirty days after Executive’s Date of Termination.”

8. Section 10(d)(ii) of the Employment Agreement is amended by the deletion of the parenthetical clause “(or such later date as the Executive may elect).”

9. The fourth sentence of Section 16 shall be amended in its entirety to read as follows:

“The Employer will not have any obligation to the Executive under this section for any loss suffered if the Executive voluntarily pays, settles, compromises, confesses judgment for, or admits liability with respect to any matter without the approval of the Employer.”

10. A new Section 29 is added to the Employment Agreement, to read as follows:

“29. SECTION 409A.

With respect to the payments provided by this Agreement upon termination of the Executive’s employment (the “Cash Severance Amount”), in the event the aggregate portion of the Cash Severance Amount payable during the first six months following the date of termination of the Executive’s employment would exceed an amount (the “Minimum Amount”) equal to two times the lesser of (i) the Executive’s annualized compensation as in effect for the calendar year immediately preceding the calendar year during which the Executive’s termination of employment occurs, or (ii) the maximum amount that may be taken into account under a qualified retirement plan pursuant to Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the “Code”) for the calendar year during which the Executive’s termination of employment occurs, then, to the extent necessary to avoid the imposition of additional income taxes or penalties or interest on the Executive under Section 409A of the Code, (x) the Employer shall pay during the first six months following the date of termination of the Executive’s employment, at the time(s) and in the form(s) provided by the applicable sections of this Agreement, a portion of the Cash Severance Amount equal to the Minimum Amount, and (y) the Employer shall accumulate the portion of the Cash Severance Amount that exceeds the Minimum Amount and that the Executive would otherwise be entitled to receive during the first six months following the date of termination of the Executive’s employment and shall pay such accumulated amount to the Executive in a lump sum on the first day of the seventh month following the date of termination of the Executive’s employment, and (z) the Employer shall pay the remainder of the Cash Severance Amount, if any, on and after the first day of the seventh month following the date of termination of the Executive’s employment at the time(s) and in the form(s) provided by the applicable section(s) of this Agreement.”

IN WITNESS WHEREOF, the parties have executed this Amendment to Employment Agreement as of the date first written above. This Amendment may be executed in counterparts, which taken together shall have the same force and effect as a single original fully executed agreement. Signatures transmitted by facsimile, scan, or other electronic means shall have the same validity, force and effect as original signatures.

KFORCE INC.

By: /s/ Joseph J. Liberatore  
Joseph J. Liberatore, Chief Financial Officer

/s/ Howard Sutter  
Howard Sutter, Vice President

**KFORCE INC.  
SUBSIDIARIES (DIRECT OR INDIRECT)  
AS OF MARCH 11, 2009**

| <u>Name of Subsidiary</u>                    | <u>Jurisdiction of Incorporation or Formation</u> |
|--|---|
| Kforce Airlines, Inc.                        | Florida   |
| Kforce.com, Inc.                             | Florida   |
| Romac International, Inc.                    | Florida   |
| Kforce Flexible Solutions, LLC               | Florida   |
| Kforce Staffing Solutions of California, LLC | Florida   |
| Kforce Global Solutions, Inc.                | Pennsylvania                                      |
| Kforce Government Solutions, Inc.            | Pennsylvania                                      |
| Kforce Government Holdings, Inc.             | Florida   |
| Kforce Services Corp.                        | Florida   |
| Kforce Healthcare Inc.                       | Florida   |
| Kforce Healthcare Flex LLC                   | Florida   |
| Kforce Clinical Research Inc.                | Florida   |
| Kforce Clinical Research Flex LLC            | Florida   |
| RDI Systems, Inc.                            | Texas   |

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-50539, 333-50543, 333-94563, 333-60302, 333-68212, 333-142620, 333-142623, and 333-144470 on Form S-8 and Registration Statement No. 333-123428 on Form S-3 of our report dated March 11, 2009, relating to the consolidated financial statements and financial statement schedule of Kforce Inc. and subsidiaries (“Kforce”), and the effectiveness of Kforce’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Kforce for the year ended December 31, 2008.

/s/ Deloitte & Touche LLP

Tampa, Florida  
March 11, 2009

CERTIFICATIONS

I, David L. Dunkel, certify that:

1. I have reviewed this annual report on Form 10-K of Kforce Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2009

/s/ David L. Dunkel  
David L. Dunkel,  
Chief Executive Officer

## CERTIFICATIONS

I, Joseph J. Liberatore, certify that:

1. I have reviewed this annual report on Form 10-K of Kforce Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2009

/s/ Joseph J. Liberatore  
Joseph J. Liberatore,  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Kforce Inc. ("Kforce") on Form 10-K for the fiscal year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, David L. Dunkel, Chief Executive Officer of Kforce, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Kforce.

Date: March 11, 2009

/s/ David L. Dunkel  
David L. Dunkel,  
Chief Executive Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Kforce Inc. ("Kforce") on Form 10-K for the fiscal year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Joseph J. Liberatore, Chief Financial Officer of Kforce, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Kforce.

Date: March 11, 2009

/s/ Joseph J. Liberatore  
Joseph J. Liberatore,  
Chief Financial Officer