

KFORCE INC  
Form DEF 14A  
April 24, 2006

## SCHEDULE 14A

### INFORMATION REQUIRED IN PROXY STATEMENT

#### SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**KFORCE INC.**

(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy statement, if other than Registrant)

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**KFORCE INC.**

**Notice of Annual Meeting of Shareholders To Be Held June 20, 2006**

Dear Shareholder:

On Tuesday, June 20, 2006, Kforce Inc. will hold its 2006 Annual Meeting of Shareholders at Kforce's corporate headquarters located at 1001 East Palm Avenue, Tampa, Florida 33605. The Board of Directors cordially invites all shareholders to attend the meeting which will begin at 9:00 a.m., Eastern time.

We are holding this meeting to:

1. Elect three Class III directors to hold office for a three-year term expiring in 2009;
2. Approve Kforce Inc.'s 2006 Stock Incentive Plan;
3. Approve an amendment of the 1999 Kforce Inc. Employee Stock Purchase Plan;
4. Ratify the appointment of Deloitte & Touche LLP as Kforce's independent registered public accountants for the fiscal year ending December 31, 2006; and
5. Attend to other business properly presented at the meeting.

Your Board of Directors has selected April 20, 2006 as the record date for determining shareholders entitled to vote at the meeting.

This proxy statement, proxy card and Kforce's 2005 Annual Report to Shareholders are being mailed on or about May 5, 2006. Whether or not you plan to attend the annual meeting, please submit your proxy in any one of the following ways: (1) using the toll-free telephone number shown on the enclosed proxy card; (2) using the Internet website shown on the enclosed proxy card; or (3) completing, signing, and dating the enclosed proxy card and returning it promptly in the enclosed postage-paid envelope.

If you need further assistance, please contact Kforce Investor Relations at (813) 552-5000.

BY ORDER OF THE BOARD OF DIRECTORS

William L. Sanders  
Secretary

Tampa, Florida

May 5, 2006

**QUESTIONS AND ANSWERS**

**Q: Why did you send me this proxy statement?**

A: We sent you this proxy statement and the enclosed proxy card because Kforce's Board of Directors (the Board) is soliciting your proxy on behalf of Kforce to vote your shares at the Annual Meeting. This proxy statement summarizes information that we are required to provide to you under the rules of the Securities and Exchange Commission (SEC) and which is designed to assist you in voting.

**Q: When is the Annual Meeting and where will it be held?**

A: The Annual Meeting will be held on Tuesday, June 20, 2006 at 9:00 a.m., Eastern time, at Kforce's corporate headquarters located at 1001 East Palm Avenue, Tampa, Florida 33605.

**Q: What may I vote on?**

A: The election of three Class III directors to hold office for a three-year term expiring in 2009, the approval of the Kforce Inc. 2006 Stock Incentive Plan, the approval of an amendment of the 1999 Kforce Inc. Employee Stock Purchase Plan and the ratification of the appointment of Deloitte & Touche LLP as Kforce's independent registered public accountants for the fiscal year ending December 31, 2006.

**Q: How does Kforce's Board recommend I vote on the proposals?**

A: The Board recommends a vote FOR each of the proposals.

**Q: Who is entitled to vote?**

A: Only those who owned Kforce common stock at the close of business on April 20, 2006 (the Record Date) are entitled to vote at the Annual Meeting.

**Q: How do I vote?**

A: You may vote your shares either in person or by proxy. Whether you plan to attend the meeting and vote in person or not, we urge you to submit your proxy by either: (1) using the toll-free telephone number shown on the enclosed proxy card; (2) using the Internet website shown on the enclosed proxy card; or (3) completing the enclosed proxy card and returning it promptly in the enclosed postage-paid envelope. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR each of the proposals.

Shareholders voting via the Internet should understand that there might be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that the shareholder must bear.

**Q: Can I change my vote?**

You have the right to change your vote at any time before the meeting by:

- (1) notifying Kforce's corporate secretary that you have revoked your proxy;
- (2) voting in person;
- (3) returning a later-dated proxy card;
- (4) voting through the Internet at <http://www.eproxyvote.com/kfrc> at a later date; or
- (5) voting through the toll-free telephone number by calling 1-877-PRX-VOTE (1-877-779-8683) at a later date.

**Q: How many shares can vote?**

A: As of the Record Date, 39,531,315 shares of Kforce common stock were issued and outstanding. Every holder of Kforce common stock is entitled to one vote for each share held.

**Q: What is a quorum ?**

A: A quorum is a majority of the outstanding shares. They may be present at the meeting or represented by proxy. There must be a quorum for the meeting to be held. If you submit a properly executed proxy card, even if you abstain from voting, then you will be considered part of the quorum. However, abstentions are not counted in the tally of votes FOR or AGAINST a proposal. A WITHHELD vote is the same as an abstention. If a broker, bank, custodian, nominee or other record holder of Kforce common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, the shares held by that record holder (referred to as broker non-votes ) will also be counted as present and considered part of a quorum but will not be counted in the tally of votes FOR or AGAINST a proposal.

**Q: What is the required vote for the proposals to pass?**

A: With regard to the proposal for the election of directors, the required vote is a plurality of the votes cast at a meeting at which a quorum is present. With regard to the proposal for approval of the 2006 Stock Incentive Plan , the approval of an amendment of the 1999 Kforce Inc. Employee Stock Purchase Plan, and the proposal for the ratification of the appointment of Deloitte & Touche LLP as Kforce s independent registered public accountants for the fiscal year ending December 31, 2006 such proposals must receive the affirmative vote of the majority of the shares entitled to vote on the matter.

**Q: How will voting on any other business be conducted?**

A: Although we do not know of any business to be considered at the Annual Meeting other than the proposals described in this proxy statement, if any other business is properly presented at the Annual Meeting, your signed proxy card gives authority to William L. Sanders, Kforce s President and Secretary and Michael Blackman, Kforce s Senior Vice President of Investor Relations, or either of them, to vote on such matters at their discretion.

**Q: How are my shares voted if I submit a proxy but do not specify how I want to vote?**

A: If you submit a properly executed proxy card or complete the telephone or Internet voting procedures but do not specify how you want to vote, your shares will be voted FOR the election of each of the nominees for director, FOR the proposal to approve the Kforce Inc. 2006 Stock Incentive Plan, FOR the approval of an amendment of the 1999 Kforce Inc. Employee Stock Purchase Plan, and FOR the ratification of the appointment of Deloitte & Touche LLP as Kforce s independent registered accountants for the fiscal year ending December 31, 2006, and in the discretion of the persons named as proxies on all other matters that may be brought before the meeting.

**Q: How do I vote using the telephone or the Internet?**

A: *For Shares Directly Registered in the Name of the Shareholder.* Shareholders with shares registered directly with Computershare Trust Company, N.A. ( Computershare ), Kforce s transfer agent, may vote on the Internet at the following address on the World Wide Web: <http://www.eproxyvote.com/kfrc>. They will be required to provide the Control Numbers contained on their proxy cards. After providing the correct Control Number, the voter will be asked to complete an electronic proxy card. The votes will be generated on the computer screen and the voter will be prompted to submit or revise them as desired. Votes submitted via the Internet by a registered shareholder

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must be received by 11:59 p.m. (Eastern Time) on June 19, 2006.



*For Shares Registered in the Name of a Bank or Brokerage.* A number of brokerage firms and banks are participating in a program for shares held in street name that offers Internet voting options. This program is different from the program provided by Computershare for shares registered in the name of the shareholder. If your shares are held in an account at a brokerage firm or bank participating in the street name program, you may have already been offered the opportunity to elect to vote using the Internet. Votes submitted via the Internet through the street name program must be received by 11:59 p.m. (Eastern Time) on June 19, 2006.

Shareholders voting via the Internet should understand that there might be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, which the shareholder must bear.

Shareholders eligible to vote at the Annual Meeting, using a touch-tone telephone, may also vote by calling **1-877-779-8683** (toll free) and following the recorded instructions.

Please note that the method of voting used will not affect your right to vote in person should you decide to attend the Annual Meeting. Also, please be aware that Kforce is not involved in the operation of either of these Internet voting procedures and cannot take responsibility for any access or Internet Service interruptions that may occur or any inaccuracies, erroneous or incomplete information that may appear.

**Q: When are the shareholder proposals for the next Annual Meeting of Shareholders due?**

A: All shareholder proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to William L. Sanders, Corporate Secretary, Kforce Inc., 1001 East Palm Avenue, Tampa, Florida 33605, by January 3, 2007. In addition, the proxy solicited by the Board for the 2007 Annual Meeting of Shareholders will confer discretionary authority to vote on any shareholder proposal presented at that meeting, unless we are provided with written notice of such proposal by March 22, 2007.

**Q: Who will pay for this proxy solicitation?**

A: We will pay all the costs of soliciting these proxies, except for costs associated with individual shareholder use of the Internet and telephone. In addition to mailing proxy solicitation material, our directors and employees may also solicit proxies in person, by telephone or by other electronic means of communication. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to our shareholders.

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**PROPOSALS ON WHICH YOU MAY VOTE**

**PROPOSAL 1. ELECTION OF DIRECTORS**

The Board has ten directors who are divided into three classes serving staggered three-year terms. The current terms of the three classes of directors expire in 2006 (Class III directors), 2007 (Class I directors) and 2008 (Class II directors). At the Annual Meeting, you and the other shareholders will elect three individuals to serve as directors until the 2009 Annual Meeting. The Board has nominated David L. Dunkel, W.R. Carey, Jr. and Mark F. Furlong to stand for election at the Annual Meeting for Class III director seats. Messrs. Dunkel, Carey and Furlong are current members of the Board. Detailed information on each nominee is provided on pages 19 and 20.

The individuals named as proxies will vote the enclosed proxy for the election of David L. Dunkel, W.R. Carey, Jr. and Mark F. Furlong unless you direct them to withhold your votes. If any nominee becomes unable or unwilling to stand for election, the Board may reduce its size or designate a substitute. If a substitute is designated, proxies voting for the original nominee will be cast for the substituted nominee.

**Vote Required**

The three nominees for election as Class III directors will be elected at the meeting by a plurality of all the votes cast at the meeting, meaning that the three nominees for Class III director who receive the most votes will be elected. A properly executed proxy marked to withhold authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

**THE BOARD RECOMMENDS A VOTE *FOR* EACH OF THE NOMINEES FOR ELECTION AS DIRECTOR. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY A CONTRARY CHOICE IN THEIR PROXIES.**

**Information About the Board of Directors and Committees**

The full Board considers all major decisions. However, the Board has established the following five standing committees so that certain important areas can be addressed in more depth than may be possible in a full Board meeting:

**Compensation Committee.** The Compensation Committee held four meetings for which its members were compensated in 2005. The Compensation Committee reviews overall compensation and fringe benefit policies and practices; reviews and recommends to the Board the adoption of, or amendments to, stock option, stock-based incentive, or stock purchase plans; approves any grants or awards under any long-term incentive program; and prepares an annual report on our executive compensation policies and practices as may be required by SEC rules. The current members of the Compensation Committee are W. R. Carey, Jr., Mark F. Furlong, Elaine D. Rosen (Chairperson) and Ralph E. Struzziero.

**Audit Committee.** The Audit Committee held six meetings for which its members were compensated in 2005. The Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of our accounting and reporting practices and such other duties as directed by the Board. In discharging this oversight role, the Audit Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Firm, and the power to retain outside counsel or other experts for this purpose. The Audit Committee has the sole responsibility for the selection, compensation, oversight and termination of the independent auditors who audit our financial statements. In carrying out its responsibilities, the Audit Committee selects, provides for the compensation of, and oversees the work of the independent auditors; pre-approves the fees, terms, and services under all audit and non-audit engagements; reviews the performance of the independent

auditors; and monitors and periodically reviews the independence of the independent auditors by obtaining and reviewing a report from the independent auditors at least annually regarding all relationships between the independent auditors and Kforce.

Other responsibilities of the Audit Committee include reviewing with the internal auditors and the independent auditors their respective annual audit plans, staffing, reports, and the results of their audits; reviewing with management and the independent auditors Kforce's annual and quarterly financial results, financial statements and results of the independent auditors' reviews of such financial information; reviewing with the independent auditors any matters of significant disagreement between management and the independent auditors and any other problems or difficulties encountered during the course of the audit and management's response to such disagreements, problems, or difficulties; conferring with the independent auditors with regard to the adequacy of internal accounting controls; reviewing with the independent auditors (a) all critical accounting policies and practices used in the audit, (b) all alternative treatments of financial accounting and disclosures within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (c) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences as well as meeting with the independent auditors in executive session to discuss any other matters that the independent auditors believe should be discussed privately.

The Audit Committee also oversees Kforce's internal assurance function and compliance with procedures for the receipt, retention and treatment of complaints received by Kforce regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of Kforce of concerns regarding accounting or auditing matters.

The current members of the Audit Committee are John N. Allred, W. R. Carey, Jr. and Mark F. Furlong (Chairman). Each member of the Audit Committee is independent within the meaning of Rule 4200(a)(15) of Nasdaq's listing standards and the SEC Rules. The Board has determined that Mr. Furlong is an audit committee financial expert as defined by SEC rules. The Audit Committee's responsibilities are more fully set forth in a written charter that was initially adopted by the Audit Committee as of March 27, 2003 and by the Board on April 8, 2003, with a revision to the charter adopted on July 23, 2004. A copy of the charter is attached as Appendix A.

**Nomination Committee.** The Nomination Committee held four meetings for which its members were compensated in 2005. The Nomination Committee makes recommendations to the Board regarding the size and composition of the Board. The Nomination Committee establishes procedures for the nomination process, recommends candidates for election to our Board and nominates officers for election by the Board.

The current members of the Nomination Committee are John N. Allred, W.R. Carey, Jr. (Chairman), and Elaine D. Rosen, each of whom is independent within the meaning of Rule 4200(a)(15) of Nasdaq's listing standards. As set forth in the general guidelines established pursuant to its charter, the Nomination Committee strives for directors who will: (a) bring to the Board a variety of experience and backgrounds; (b) bring substantial senior management experience, financial expertise and such other skills that would enhance the Board's effectiveness; and (c) represent the balanced, best interests of our shareholders as a whole and the interests of our stakeholders, as appropriate, rather than special interest groups or constituencies. In selecting nominees, the Nomination Committee assesses independence, character and integrity, potential conflicts of interest, experience, and the willingness to devote sufficient time to carrying out the responsibilities of a director. The Nomination Committee has the authority to retain a search firm to be used to identify director candidates and to approve the search firm's fees and other retention terms.

The Nomination Committee will consider nominees for the Board that are proposed by our shareholders. The same identifying and evaluating procedures apply to all candidates for director

nomination, including candidates submitted by shareholders. Any shareholder who wishes to recommend a prospective nominee for the Board, for the Nomination Committee's consideration, may do so by giving the candidate's name and qualifications in writing to William L. Sanders, Corporate Secretary, Kforce Inc., 1001 East Palm Avenue, Tampa, Florida 33605. The Nomination Committee's responsibilities are more fully set forth in a written charter that was adopted by the Nomination Committee and by the Board. A copy of the charter is available on the Investor Relations page of our website at <http://www.kforce.com>.

**Corporate Governance Committee.** The Corporate Governance Committee held four meetings for which its members were compensated in 2005. The purpose of the Corporate Governance Committee is to encourage and enhance communication among independent directors. The committee consists of all directors of the Board who are independent under Nasdaq and SEC rules. The current members of the Corporate Governance Committee are John N. Allred, W.R. Carey, Jr., Mark F. Furlong, Patrick D. Moneymaker, Elaine D. Rosen, Ralph E. Struzziero (Chairman) and A. Gordon Tunstall.

**Executive Committee.** The Executive Committee held no meetings for which they were compensated in 2005. The Executive Committee has the authority to act in place of the Board on all matters which would otherwise come before the Board, except for such matters which are required by law or by our Articles of Incorporation or Bylaws to be acted upon exclusively by the Board. The current members of the Executive Committee are Richard M. Cocchiari, David L. Dunkel (Chairman), Howard W. Sutter and A. Gordon Tunstall.

The Board met five times during 2005. Each director attended at least 75% of the total number of meetings of (a) the Board (held during the period for which they were a director) and (b) the Committees on which they served (during the periods that they served).

#### **Communications with Board of Directors**

Shareholders may communicate with the full Board or individual directors by submitting such communications in writing to William L. Sanders, Corporate Secretary, Kforce Inc., 1001 East Palm Avenue, Tampa, Florida 33605. Such communications will be delivered directly to Kforce's Board of Directors.

Kforce has no formal policy on director attendance at the Annual Meeting of Shareholders. Mr. Dunkel attended Kforce's 2005 Annual Meeting of Shareholders.

#### **Code of Ethics**

The Board has adopted a Code of Ethics and Business Conduct that is applicable to all employees of Kforce, including the chief executive officer, chief financial officer and chief accounting officer. The Code of Ethics and Business Conduct is available on the Investor Relations page of our website at <http://www.kforce.com>.

#### **Compensation of Directors**

Directors who are not employees receive an annual retainer of \$15,000 plus \$2,000 for each Board meeting attended with a duration of 30 minutes or longer, and \$2,000 for each committee meeting attended. The chairman of the Audit Committee receives an additional \$10,000 per year, and the chairperson of the Compensation Committee receives an additional \$7,500 per year. All other committee chairmen receive an additional \$5,000 per year. Directors are given the choice of receiving stock options in lieu of cash for their annual retainer. Directors also receive 5,000 stock options annually in addition to their annual retainers. In 2005, because Kforce was not able to issue stock option grants as a result of the expiration of the Kforce Stock Plan, each director received an additional annual cash payment of \$20,150. All non-employee directors also receive reimbursement of out-of-pocket expenses incurred in connection with meetings of the Board or committees. No director who is an employee receives separate compensation for services rendered as a director. During 2005, there were no option grants to non-employee directors.

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**PROPOSAL 2. APPROVAL OF THE KFORCE INC. 2006 STOCK INCENTIVE PLAN**

**General**

A proposal will be presented at the Annual Meeting to approve the Kforce Inc. 2006 Stock Incentive Plan, which was adopted by the Board on April 28, 2006, subject to approval by our shareholders. This request is being made because Kforce's current Stock Incentive and Non-Employee Director Plans expired in 2005. The complete text of the Stock Incentive Plan is set forth in Appendix B to this Proxy Statement, and shareholders are urged to review it together with the following information, which is qualified in its entirety by reference to Appendix B.

The Stock Incentive Plan will not be effective absent shareholder approval. The Stock Incentive Plan is designed so that incentive stock option awards granted pursuant to its terms would generally be subject to the favorable tax treatment provided to recipients of incentive stock options under Section 422 of the Internal Revenue Code of 1986. The Stock Incentive Plan also is designed so that stock option and certain restricted and other stock awards granted pursuant to its terms would generally not be subject to the tax deduction limits of Section 162(m) of the Internal Revenue Code of 1986. Section 162(m) prevents a publicly held corporation from claiming tax deductions for annual compensation in excess of \$1,000,000 to certain of its senior executives. The executives subject to the limitations of Section 162(m) include any individual who, as of the last day of the corporation's taxable year, is the corporation's chief executive officer or among the four highest compensated officers other than the chief executive officer. Compensation is exempt from this limitation if it is qualified performance-based compensation.

The purpose of this proposal is to request shareholder approval of the material terms of the Stock Incentive Plan in order to provide a means to grant equity-based compensation to executives, employees and directors to align their interests with those of shareholders, to qualify incentive stock awards under the Stock Incentive Plan for favorable tax treatment and to achieve application of the qualified performance-based compensation exception to the Section 162(m) deduction limitation. Approval of this proposal will ensure that we are able to receive tax deductions for the full amount of performance-based compensation paid to officers and other employees in the form of stock options, certain restricted stock awards and other types of stock-based payments under the Stock Incentive Plan. One of the requirements for performance-based compensation is that the corporation's shareholders must approve the material terms of the performance-based compensation. The material terms that must be approved include (1) the employees eligible to receive the performance-based compensation, (2) the objectives under which the performance-based compensation will be determined, and (3) the maximum amount of performance-based compensation that could be paid to any executive in a fiscal year.

The following important considerations should also be taken into account when considering the plan:

Kforce is a personal services business and has a long history of issuing equity incentives as a key element of its compensation programs designed to attract, motivate and retain its employees;

Based on the closing price of Kforce stock for the five-year period from December 29, 2000 through December 30, 2005, Kforce was the top performer in its proxy peer group.

Kforce's stock value has increased over 264.7% from December 29, 2000 to December 30, 2005.

By making a significant portion of compensation contingent upon long-term positive share price performance, the interests of shareholders are furthered. The Board of Directors strongly believes that this philosophy has served, and will continue to serve, Kforce well and that approval of the Stock Incentive Plan is vital to Kforce's continued success.

The following is a summary of the material terms of the Stock Incentive Plan, including the material terms of the performance goals thereunder that shareholders are being asked to approve.

**Description of the Stock Incentive Plan**

The following summary of the Stock Incentive Plan is qualified in its entirety by the terms of the Stock Incentive Plan, which is attached to this proxy as Appendix B.

*Purpose.*

The purposes of the Stock Incentive Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to motivate employees and consultants of Kforce and to promote the success of Kforce's business.

*Awards.*

The Stock Incentive Plan provides for awards of incentive stock options, nonqualified stock options, restricted stock awards, performance units, performance shares and stock appreciation rights.

*Stock Subject to the Stock Incentive Plan.*

The aggregate number of shares of common stock that may be subject to awards under the Stock Incentive Plan, subject to adjustment upon a change in capitalization, is 3,000,000 of which no more than 2,000,000 can be granted as performance shares, performance units or restricted stock ( Full Value Awards ), provided, however, that Full-Value Awards may be granted in excess of 2,000,000 shares provided that such shares will count against the 1,000,000 shares reserved for Options/SARS at a 1.49:1 ratio (i.e. up to either 671,141 Full Value Awards or 1,000,000 Options/SARS (or some combination thereof using the above ratio) may be granted from the 1,000,000 new share reserve set aside for Option/SAR grants. Such shares of common stock may be authorized, but unissued, or reacquired shares of common stock. Shares of common stock that were subject to Stock Incentive Plan awards that expire or become unexercisable without having been exercised in full shall become available for future awards under the Stock Incentive Plan.

*Administration.*

The Stock Incentive Plan shall be administered by Kforce's Compensation Committee. Subject to the other provisions of the Stock Incentive Plan, the Compensation Committee has the power to determine the terms of each award granted, including the exercise price, the number of shares subject to the award and the exercisability thereof.

*Eligibility.*

The Stock Incentive Plan provides that the Compensation Committee may grant awards to employees and consultants, including non-employee directors. The Compensation Committee may grant incentive stock options only to employees. A grantee who has received a grant of an award may, if he is otherwise eligible, receive additional award grants. The Compensation Committee selects the grantees and determines the number of shares of common stock to be subject to each award. In making such determination, the Compensation Committee shall take into account the duties and responsibilities of the employee or consultant, the value of his services, his potential contribution to the success of Kforce, the anticipated number of years of future service and other relevant factors. The Compensation Committee shall not grant to any employee, in any fiscal year of Kforce, incentive stock options, nonqualified stock options, restricted stock awards, performance units, performance shares or stock appreciation rights representing more than 400,000 shares of common stock.

*Maximum Term and General Terms and Conditions of Awards.*

With respect to any grantee who beneficially owns stock possessing 10% or more of the voting power of all classes of stock of Kforce (a 10% Stockholder ), the maximum term of any incentive stock option granted to such optionee must not exceed five years. The term of all other options granted under the Stock Incentive Plan may not exceed ten years.

Each award granted under the Stock Incentive Plan is evidenced by a written agreement between the grantee and Kforce and is subject to the following general terms and conditions unless otherwise provided in the award agreement:

(a) Termination of Employment. If a grantee's continuous status as an employee or consultant terminates for any reason (other than upon the grantee's death or disability), the grantee may exercise his unexercised option or

stock appreciation right, but only within such period of time as is determined by the Compensation Committee (with such determination being made at the time of grant and not exceeding 3 months in the case of an incentive stock option) and only to the extent that the grantee was entitled to exercise it at the date of such termination (but in no event may the option or stock appreciation right be exercised later than the expiration of the term of such award as set forth in the award agreement). A grantee's stock award shall be forfeited, to the extent it is forfeitable immediately before the date of such termination, or settled by delivery of the appropriate number of unrestricted shares, to the extent it is nonforfeitable. A grantee's performance shares or performance units with respect to which the performance period has not ended as of the date of such termination shall terminate.

(b) Disability. If a grantee's continuous status as an employee or consultant terminates as a result of permanent and total disability (as defined in Section 22(e)(3) of the Code), the grantee may exercise his unexercised option or stock appreciation right, but only within 90 days from the date of such termination, and only to the extent that the optionee was entitled to exercise it at the date of such termination (but in no event may the option or stock appreciation right be exercised later than the expiration of the term of such award as set forth in the award agreement). A grantee's stock award shall be forfeited, to the extent it is forfeitable immediately before the date of such termination, or settled by delivery of the appropriate number of unrestricted shares, to the extent it is nonforfeitable. A grantee's performance shares or performance units with respect to which the performance period has not ended as of the date of such termination shall terminate.

(c) Death. In the event of a grantee's death, the grantee's estate or a person who acquired the right to exercise the deceased grantee's option or stock appreciation right by bequest or inheritance may exercise the option or stock appreciation right, but only within 90 days following the date of death, and only to the extent that the grantee was entitled to exercise it at the date of death (but in no event may the option or stock appreciation right be exercised later than the expiration of the term of such award as set forth in the award agreement). A grantee's stock award shall be forfeited, to the extent it is forfeitable immediately before the date of such termination, or settled by delivery of the appropriate number of unrestricted shares, to the extent it is nonforfeitable. A grantee's performance shares or performance units with respect to which the performance period has not ended as of the date of such termination shall terminate.

(d) Nontransferability of Awards. Except as described below, an award granted under the Stock Incentive Plan is not transferable by the grantee, other than by will or the laws of descent and distribution, and is exercisable during the grantee's lifetime only by the grantee. In the event of the grantee's death, an option or stock appreciation right may be exercised by a person who acquires the right to exercise the award by bequest or inheritance. To the extent and in the manner permitted by applicable law and the Compensation Committee, a grantee may transfer an award to certain family members and other individuals and entities.

*Terms and Conditions of Options.*

Each option granted under the Stock Incentive Plan is subject to the following terms and conditions:

(a) Exercise Price. The Compensation Committee determines the exercise price of options to purchase shares of common stock at the time the options are granted. As a general rule, the exercise price of an option must be no less than 100% (110% for an incentive stock option granted to a 10% Stockholder) of the fair market value of the common stock on the date the option is granted. The Stock Incentive Plan provides exceptions for certain options granted in connection with an acquisition by Kforce of another corporation or granted as inducements to an individual's commencing employment with Kforce. The Stock Incentive Plan prohibits modification of any outstanding option so as to specify a lower exercise price, or acceptance of the surrender of an outstanding option and the granting of a new option with a lower exercise price in substitution for such surrendered option without prior shareholder approval.

(b) Exercise of the Option. Each award agreement specifies the term of the option and the date when the option is to become exercisable. The terms of such vesting are determined by the Compensation Committee. An

option is exercised by giving written notice of exercise to Kforce, specifying the number of full shares of common stock to be purchased and by tendering full payment of the purchase price to Kforce.

(c) Form of Consideration. The consideration to be paid for the shares of common stock issued upon exercise of an option is determined by the Compensation Committee and set forth in the award agreement. Such form of consideration may vary for each option, and may consist entirely of cash, check, other shares of Kforce's common stock, any combination thereof, or any other legally permissible form of consideration as may be provided in the Stock Incentive Plan and the award agreement.

(d) Value Limitation. If the aggregate fair market value of all shares of common stock subject to a grantee's incentive stock option which are exercisable for the first time during any calendar year exceeds \$100,000, the excess options shall be treated as nonqualified options.

(e) Other Provisions. The award agreement may contain such other terms, provisions and conditions not inconsistent with the Stock Incentive Plan as may be determined by the Compensation Committee. Shares of common stock covered by options which have terminated and which were not exercised prior to termination will be returned to the Stock Incentive Plan.

*Stock Appreciation Rights.*

The Compensation Committee may grant stock appreciation rights in tandem with an option or alone and unrelated to an option. Tandem stock appreciation rights shall expire no later than the expiration of the related option. Stock appreciation rights may be exercised by the delivery to Kforce of a written notice of exercise. The initial value of a stock appreciation right will be the fair market value of a share of common stock on the date of grant. The exercise of a stock appreciation right will entitle the grantee to receive the excess of the percentage stated in the award agreement of the fair market value of a share of common stock at the time of grant over the exercise price for each share of common stock with respect to which the stock appreciation right is exercised. Payment upon exercise of a stock appreciation right will be in shares of common stock.

*Restricted Stock Awards.*

The Compensation Committee may grant awards of restricted shares of common stock in such amount and upon such terms and conditions as the Compensation Committee specifies in the award agreement. The Compensation Committee may grant awards of performance-based restricted stock or restricted stock awards other than performance-based restricted stock.

*Restricted Stock Other Than Performance-Based Restricted Stock*

Restricted stock other than performance-based restricted stock may be granted to employees and consultants and may be subject to one or more contractual restrictions applicable generally or to a grantee in particular, as established at the time of grant and as set forth in the related restricted stock agreement. The restricted stock agreement sets forth the conditions, if any, which will need to be satisfied before the grant will be effective and the conditions, if any, under which the grantee's interest in the restricted shares will be forfeited. As soon as practicable after a grant has become effective, the shares are registered to or for the benefit of the grantee, but subject to any forfeiture conditions established by the Compensation Committee. The restricted stock agreement states whether the grantee has the right to receive any cash dividends paid with respect to the restricted shares. If the grantee has no right to receive cash dividends, the agreement may give the grantee the right to receive a cash payment in the future in lieu of the dividend payments, provided certain conditions are met. Common share dividends declared on the restricted shares after grant but before the shares are forfeited or become nonforfeitable are treated as part of the grant of the related restricted shares. A grantee has the right to vote the restricted shares after grant until they are forfeited or become nonforfeitable.

Restricted shares may vest in installments or in lump sum amounts upon satisfaction of the stipulated conditions. If the restrictions are not satisfied, the shares are forfeited and again become available under the plan.



In the case of restricted stock grants which vest only on the satisfaction of performance objectives, the Compensation Committee determines the performance objectives to be used in connection with restricted stock awards and the extent to which such objectives have been met. Performance objectives may vary from participant to participant and between groups of participants and shall be based upon such performance factors and criteria as the Compensation Committee in its sole discretion selects.

*Performance-Based Restricted Stock*

The Compensation Committee may make grants of performance-based restricted stock to employees and consultants. The Compensation Committee has absolute discretion to establish the performance criteria that will be applicable to each grant and to determine the percentage of shares that will be granted upon various levels of attainment of the performance criteria. To comply with Section 162(m) of the Code, the establishment of the performance criteria and the determination of the grant formula must be made at the time of grant, but in no event later than 90 days after the commencement of the performance measurement period. The Compensation Committee can select the performance criteria that will be applicable to a grant of performance-based restricted shares from the following list:

common stock price;

average annual growth in earnings per share;

increase in shareholder value or shareholder return;

earnings per share;

net income, net income margin or net income growth;

return on assets;

return on shareholders' equity;

return on capital employed (ROCE);

return on invested capital (ROIC);

cash flow, cash flow margins or cash flow growth;

operating profit, operating margins or operating profit growth;

revenue growth of Kforce;

operating expenses;

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gross profit, gross profit percentage or gross profit growth;

working capital;

revenue levels;

selling, general & administrative expense levels;

debt or debt-to-equity;

accounts receivable write-offs;

cash levels; or

liquidity.

The related performance-based restricted stock agreement sets forth the applicable performance criteria and the deadline for satisfying the performance criteria. No grant of performance-based restricted shares is effective until the Compensation Committee certifies that the applicable conditions (including performance criteria) have been timely satisfied.

The Compensation Committee may also make grants of performance-based restricted stock subject to one or more objective employment, performance or other forfeiture conditions applicable generally or to a grantee in particular, as established by the Compensation Committee at the time of grant and as set forth in the related performance-based restricted stock agreement. The performance-based restricted stock agreement sets forth the conditions, if any, under which the grantee's interest in the performance-based restricted shares will be forfeited. If the grant or forfeiture conditions with respect to performance-based restricted shares are not satisfied, the shares are forfeited and again become available under the plan.

As soon as practicable after a grant has become effective, the shares are registered to or for the benefit of the grantee, but subject to any forfeiture conditions established by the Compensation Committee. The performance-based restricted stock agreement states whether the grantee has the right to receive any cash dividends paid with respect to the performance-based restricted shares. If the grantee has no right to receive cash dividends, the agreement may give the grantee the right to receive a cash payment in the future in lieu of the dividend payments, provided certain conditions are met. Common share dividends declared on the performance-based restricted shares after grant but before the shares are forfeited or become nonforfeitable are treated as part of the grant of the related restricted shares. A grantee has the right to vote the performance-based restricted shares after grant until they are forfeited or become nonforfeitable.

*Performance Units and Performance Shares.*

The Compensation Committee may grant awards of performance units and performance shares in such amounts and upon such terms and conditions, including the performance goals and the performance period, as the Compensation Committee specifies in the award agreement. The Compensation Committee will establish an initial value for each performance unit on the date of grant.

The initial value of a performance share will be the fair market value of a share of common stock on the date of grant. Payment of earned performance units or performance shares will occur following the close of the applicable performance period and in the form of cash, shares of common stock or a combination of cash and shares of common stock.

*Adjustment upon Changes in Capitalization.*

In the event of changes in the outstanding stock of Kforce because of any stock splits, reverse stock splits, stock dividends, mergers, recapitalizations or other change in the capital structure of Kforce, an appropriate adjustment shall be made by the Board of Directors in: (i) the number of shares of common stock subject to the Stock Incentive Plan; (ii) the number and class of shares of common stock subject to any award outstanding under the Stock Incentive Plan; and (iii) the exercise price of any such outstanding award. The determination of the Board of Directors as to which adjustments shall be made shall be conclusive.

*Change in Control.*

In the event of a change in control of Kforce, the Board of Directors may accelerate the vesting of any outstanding award that is not fully vested on the date of the change in control. In the event of a proposed dissolution or liquidation of Kforce, all outstanding awards will terminate immediately before the consummation of such proposed action. The Board may, in the exercise of its sole discretion in such instances, declare that any option or stock appreciation right shall terminate as of a date fixed by the Board and give each grantee the right to exercise his option or stock appreciation right as to all or any part of the stock covered by such award, including shares as to which the option or stock appreciation right would not otherwise be exercisable.

In the event of a merger of Kforce with or into another corporation, the sale of substantially all of the assets of Kforce or the acquisition by any person, other than Kforce or other named persons excluded in Section 2 of the Stock Incentive Plan of 25% or more of the Kforce's then outstanding securities, each outstanding option, and

stock appreciation right shall be assumed or an equivalent option, restricted stock share or stock appreciation right shall be substituted by the successor corporation; provided, however, if such successor or purchaser refuses to assume the then outstanding options, restricted stock shares or stock appreciation rights, the Stock Incentive Plan provides for the acceleration of the exercisability of all or some outstanding options and stock appreciation rights.

*Amendment and Termination of the Stock Incentive Plan.*

The Board may at anytime amend, alter, suspend or terminate the Stock Incentive Plan. Kforce must obtain shareholder approval of any amendment to the Stock Incentive Plan in such a manner and to such a degree as is necessary and desirable to comply with Rule 16b-3 of the Exchange Act or Section 422 or Section 162(m) of the Code (or any other applicable law or regulation, including the requirements of any exchange or quotation system on which the common stock is listed or quoted). Furthermore, Kforce must obtain shareholder approval of any modification or amendment to the extent that the Board of Directors, in its sole and absolute discretion, reasonably determines, in accordance with the requirements of any exchange or quotation system on which the common stock is listed or quoted, that such modification or amendment constitutes a material revision or material amendment of the Stock Incentive Plan. No amendment or termination of the Stock Incentive Plan shall impair the rights of any grantee, unless mutually agreed otherwise between the grantee and Kforce, which agreement must be in writing and signed by the grantee and Kforce. In any event, the Stock Incentive Plan shall terminate on April 28, 2016. Any awards outstanding under the Stock Incentive Plan at the time of its termination shall remain outstanding until they expire by their terms.

**Federal Income Tax Consequences**

Pursuant to the Stock Incentive Plan, Kforce may grant either incentive stock options, as defined in Section 422 of the Code, nonqualified options, restricted stock, stock appreciation rights, stock awards, performance units or performance shares.

An optionee who receives an incentive stock option grant will not recognize any taxable income either at the time of grant or exercise of the option, although the exercise may subject the optionee to the alternative minimum tax.

Upon the sale or other disposition of the shares more than two years after the grant of the option and one year after the exercise of the option, any gain or loss will be treated as a long-term or short-term capital gain or loss, depending upon the holding period. If these holding periods are not satisfied, the optionee will recognize ordinary income at the time of sale or disposition equal to the difference between the exercise price and the lower of (a) the fair market of the shares at the date of the option exercise or (b) the sale price of the shares. Kforce will be entitled to a deduction in the same amount as the ordinary income recognized by the optionee. Any gain or loss recognized on such a premature disposition of the shares in excess of the amount treated as ordinary income will be characterized as long-term or short-term capital gain or loss, depending on the holding period.

All options that do not qualify as incentive stock options are referred to as nonqualified options. An optionee will not recognize any taxable income at the time he or she receives a nonqualified option grant. However, upon exercise of the nonqualified option, the optionee will recognize ordinary taxable income generally measured as the excess of the fair market value of the shares purchased on the date of exercise over the exercise price. Any taxable income recognized in connection with an option exercise by an optionee who is also an employee of Kforce will be subject to tax withholding by Kforce. Upon the sale of such shares by the optionee, any difference between the sale price and the fair market value of the shares on the date of exercise of the option will be treated as long-term or short-term capital gain or loss, depending on the holding period. Kforce will be entitled to a tax deduction in the same amount as the ordinary income recognized by the optionee with respect to shares acquired upon exercise of a nonqualified option.

With respect to stock awards, stock appreciation rights, performance units and performance shares that may be settled either in cash or in shares of common stock that are either transferable or not subject to a substantial risk of forfeiture under Section 83 of the Code, the grantee will realize ordinary taxable income, subject to tax withholding, equal to the amount of the cash or the fair market value of the shares of common stock received. Kforce will be entitled to a deduction in the same amount and at the same time as the compensation income is received by the participant.

With respect to shares of common stock that are both nontransferable and subject to a substantial risk of forfeiture the participant will realize ordinary taxable income equal to the fair market value of the shares of common stock at the first time the shares of common stock are either transferable or not subject to a substantial risk of forfeiture. Kforce will be entitled to a deduction in the same amount and at the same time as the ordinary taxable income realized by the grantee.

At the discretion of the Compensation Committee, the Stock Incentive Plan allows a participant to satisfy tax withholding requirements under federal and state tax laws in connection with the exercise or receipt of an award by electing to have Shares withheld, and/or delivering to Kforce already-owned Shares.

Kforce will be entitled to a tax deduction for performance-based compensation in connection with an award only in an amount equal to the ordinary income realized by the participant and at the time the participant recognizes such income, and if applicable withholding requirements are met. In addition, Code Section 162(m) contains special rules regarding the federal income tax deductibility of compensation paid to Kforce's chief executive officer and to each of Kforce's other four most highly compensated executive officers. The general rule is that annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, Kforce can preserve the deductibility of certain compensation in excess of \$1,000,000 if it complies with certain conditions imposed by the Code Section 162(m) rules (including the establishment of a maximum number of shares with respect to which awards may be granted to any one employee during one year) and if the material terms of such compensation are disclosed to and approved by Kforce's shareholders. We have structured the Stock Incentive Plan with the intention that compensation resulting from awards under the Stock Incentive Plan can qualify as performance-based compensation and, if so qualified, would be deductible. Such continued treatment is subject to, among things, approval of the Stock Incentive Plan by Kforce's shareholders and accordingly we are seeking such approval.

The foregoing is only a summary of the effect of federal income taxation upon the grantee and Kforce with respect to the grant and exercise of awards under the Stock Incentive Plan, does not purport to be complete, and does not discuss the tax consequences of the grantee's death or the income tax laws of any municipality, state or foreign country in which a grantee may reside.

#### **Vote Required**

Approval of the Kforce Inc. 2006 Stock Incentive Plan, under Kforce's Bylaws, requires the affirmative vote of a majority of the shares entitled to vote on the matter.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE 2006 STOCK INCENTIVE PLAN. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY A CONTRARY CHOICE IN THEIR PROXIES.**

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**PROPOSAL 3. APPROVAL OF AMENDMENT OF THE KFORCE EMPLOYEE STOCK PURCHASE PLAN.**

The Kforce Employee Stock Purchase Plan (the "Stock Purchase Plan") was adopted by the Board of Directors and approved by the shareholders in 1999. The Stock Purchase Plan, which is intended to qualify under Section 423 of the Code, permits eligible employees to purchase shares of Kforce's common stock at a discount through payroll deductions.

**Proposal**

The Board of Directors recently amended the Stock Purchase Plan, subject to shareholder approval. The amendment to the Stock Purchase Plan provides that the Board of Directors, in its discretion, may designate from time to time the subsidiaries of Kforce that are eligible or ineligible to participate in the Stock Purchase Plan. The complete text of the Stock Purchase Plan is set forth in Appendix C to this Proxy Statement, and shareholders are urged to review it together with the following information, which is qualified in its entirety by reference to Appendix C.

The Board of Directors adopted the amendment, subject to shareholder approval. Therefore, the amendment will not become effective if the shareholders do not approve it.

**Summary Of The Purchase Plan**

The following summary of the principal features and effects of the Stock Purchase Plan, as amended, is qualified in its entirety by the terms of the Stock Purchase Plan, which is attached to this proxy as Appendix C.

*Purpose.*

The purpose of the Stock Purchase Plan is to provide employees of Kforce and certain of its subsidiaries as designated by the Board (the "Subsidiaries") with an opportunity to purchase common stock through accumulated payroll deductions. It is Kforce's intention to have the Stock Purchase Plan qualify as an employee stock purchase plan under Section 423 of the Code. The provisions of the Stock Purchase Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

*Administration.*

The Stock Purchase Plan will be administered by the Board of Directors or the Compensation Committee appointed by the Board (the "Administrator"). Every finding, decision and determination by the Administrator shall, to the full extent permitted by law, be final and binding upon all parties.

*Eligibility.* All employees of Kforce and its Subsidiaries are eligible to participate. Participation in the Stock Purchase Plan ends automatically on termination of employment with the Company or a Subsidiary. Eligible employees may become a participant by completing a subscription agreement authorizing payroll deductions and filing it with Kforce's payroll office at least ten business days prior to the applicable enrollment date.

*Offering Periods.* The Stock Purchase Plan is implemented by consecutive quarterly offering periods commencing on the first trading day on or after January 1, April 1, July 1 and October 1 of each year.

*Purchase Price.* The purchase price per share of the shares offered under the Stock Purchase Plan in a given offering period shall be 95% of the fair market value of a share of common stock on the exercise date. The fair market value of the common stock on a given date shall be the closing sale price of a share of common stock for such date as reported by the Nasdaq National Market. The shares of Kforce common stock purchased pursuant to the Stock Purchase Plan will, at Kforce's option, represent newly-issued shares or shares purchased in the open market by the Administrator.

**Payroll Deductions.** The purchase price for the shares of common stock is accumulated by payroll deductions during the offering period in amounts elected by the participants. A participant may discontinue his or her participation in the Stock Purchase Plan at any time during the offering period. Payroll deductions shall commence on the first payday following the enrollment date, and shall end on the exercise date of the offering period unless sooner terminated as provided in the Stock Purchase Plan.

**Grant And Exercise Of Option.** The maximum number of shares placed under option to a participant in an offering is that number determined by dividing the amount of the participant's total payroll deductions to be accumulated prior to an exercise date by 95% of the fair market value of the common stock on the exercise date. Unless a participant withdraws from the Stock Purchase Plan, such participant's option for the purchase of shares of common stock will be exercised automatically on each exercise date for the maximum number of whole shares of common stock at the applicable price. Notwithstanding the foregoing, no employee will be permitted to subscribe for shares of common stock under the Stock Purchase Plan if, immediately after the grant of the option, the employee would own five percent or more of the voting power or value of all classes of stock of Kforce or of any of its subsidiaries (including stock which may be purchased under the Stock Purchase Plan or pursuant to any other options), nor shall any employee be granted an option which would permit the employee to buy under all employee stock purchase plans of the Company more than \$25,000 worth of stock (determined at the fair market value of the shares of common stock at the time the option is granted) in any calendar year. In addition, the shares of common stock received by an employee upon the exercise of an option may not be disposed of by such employee for a period of six months from the date of exercise.

**Withdrawal; Termination Of Employment.** Employees may end their participation in the offering at any time during the offering period, and participation ends automatically on termination of employment with Kforce or a Subsidiary. A participant will be required to withdraw all of the payroll deductions credited to such participant's account and not yet used and must give written notice of such withdrawal to Kforce.

**Transferability.** No rights or accumulated payroll deductions of a participant under the Stock Purchase Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or by designation of a beneficiary as provided in the Purchase Plan) and any such attempt may be treated by Kforce as an election to withdraw from the Stock Purchase Plan.

**Adjustments Upon Changes In Capitalization, Dissolution, Merger, Asset Sale Or Change Of Control.** Subject to any required action by Kforce's shareholders, the shares of common stock reserved under the Stock Purchase Plan, as well as the price per share of common stock covered by each option under the Stock Purchase Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the common stock, or any other increase or decrease in the number of shares of common stock effected without receipt of consideration by Kforce; provided, however, that conversion of any convertible securities of Kforce shall not be deemed to have been effected without receipt of consideration. Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. In the event of the proposed dissolution or liquidation of the Company, the offering period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company or a merger of Kforce with or into another corporation, the Stock Purchase Plan provides that each option under the plan be assumed or an equivalent option be substituted by the successor or purchaser corporation, unless the Board determines to shorten the offering period.

**Amendment And Termination.** Kforce's Board of Directors may at any time and for any reason terminate or amend the Stock Purchase Plan. Except as provided in the Stock Purchase Plan, no such termination can affect options previously granted, provided that an offering period may be terminated by the Board of Directors on any exercise date if the Board determines that the termination of the Stock Purchase Plan is in the best interests of Kforce and its shareholders. Except as provided in the Stock Purchase Plan, no amendment may make any

change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law or regulation), Kforce shall obtain shareholder approval of any amendment to the Stock Purchase Plan in such a manner and to such a degree as required. Unless terminated sooner, the Stock Purchase Plan will terminate in 2009.

Federal Tax Information For The Purchase Plan. The Stock Purchase Plan and the rights of participants to make purchases under the Stock Purchase Plan are intended to qualify under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the Plan are sold or otherwise disposed of. Upon sale or other disposition of the shares of common stock, the participant will generally be subject to tax, and the amount of the tax will depend upon the holding period. If the shares of common stock are sold or otherwise disposed of more than two years from the first day of the offering period, the participant will recognize ordinary income measured as the lesser of (a) the excess of the fair market value of the shares of common stock at the time of such sale or disposition over the purchase price, or (b) the excess of the fair market value of the shares of common stock as of the first day of the offering period over the purchase price. Any additional gain will be treated as long-term capital gain. If the shares of common stock are sold or otherwise disposed of before the expiration of this holding period, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares of common stock on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on the holding period. Kforce is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a sale or disposition of shares of common stock prior to the expiration of the holding period(s) described above. The foregoing is only a summary of the effect of federal income taxation upon the participant and Kforce with respect to the shares of common stock purchased under the Stock Purchase Plan. Reference should be made to the applicable provisions of the Code. In addition, the summary does not discuss the tax consequences of a participant's death or the income tax laws of any state in which the participant may reside.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE 1999 KFORCE INC. EMPLOYEE STOCK PURCHASE PLAN. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY A CONTRARY CHOICE IN THEIR PROXIES.**

**PROPOSAL 4. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS.**

The Audit Committee of the Board of Directors has selected Deloitte&nbs