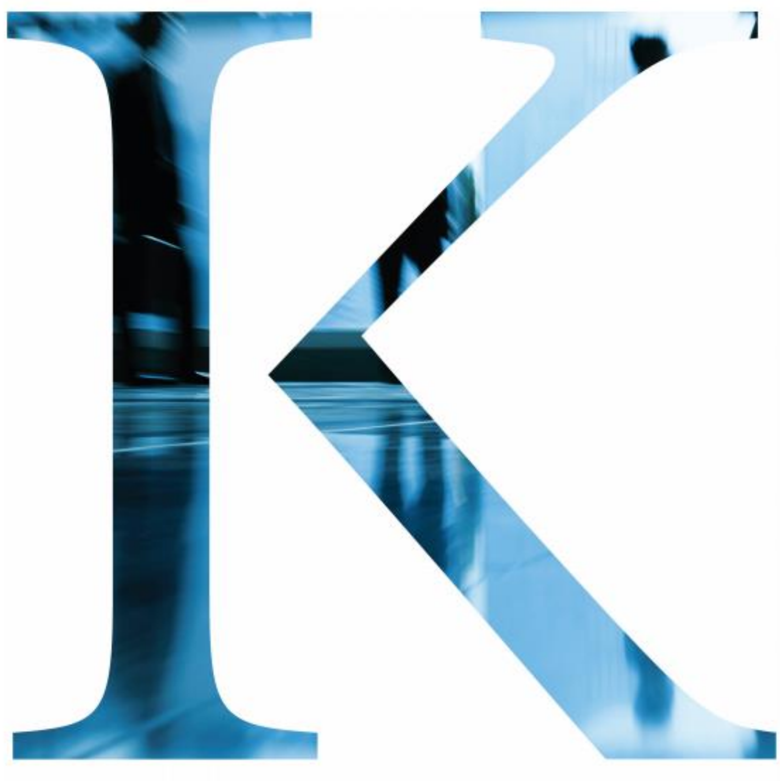
KFORCE

Q4 2015
CONFERENCE CALL

Prepared remarks from:
David L. Dunkel, Chairman and CEO
Joseph J. Liberatore, President
David M. Kelly, CFO



Great People = Great Results®

KFORCE

FOURTH QUARTER 2015 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 9, 2016
PREPARED REMARKS

Disclaimer

Certain of the statements contained within, including earnings projections, are forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are 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. Factors that could cause actual results to differ materially include the following: business conditions and growth in the staffing industry and general economy; competitive factors, risks due to shifts in the market demand, including, without limitation, shifts in demand for our Technology, Finance and Accounting and Government Solutions segments, as well as the market for direct hire and flexible staffing assignments; a reduction in the supply of candidates for temporary employment or the Firm's ability to attract candidates; the success of the Firm in attracting and retaining revenue-generating headcount; changes in the service mix; ability of the Firm to repurchase shares; ability of the Firm to complete and integrate acquisitions; the effect of adverse weather conditions; changes in our effective tax rate; and the risk factors listed from time to time in the Firm's reports filed with the Securities and Exchange Commission, including the Firm's Form 10-K for the fiscal year ending December 31, 2014, as well as assumptions regarding the foregoing. In particular, the Firm makes no assurances that the estimates of continuing operations will be achieved or that we will continue to increase our market share, successfully manage risks to our revenue stream, successfully put into place the people and processes that will create future success or further accelerate our revenue. The words "should," "believe," "estimate," "expect," "intend," "anticipate," "foresee," "plan" and similar expressions and variations thereof contained in this press release identify certain of such forward-looking statements, which speak only as of the date of this press release. The Firm undertakes no obligation to publicly update or revise any forward-looking statements. As a result, such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those indicated in the forward-looking statements as a result of various factors. Readers are cautioned not to place undue reliance on these forward-looking statements.

OPERATOR:
Good day, ladies and gentlemen, and welcome to today's Kforce Q4 2015 Earnings Call. I would like to introduce your host for today's conference, Mr. Michael Blackman, Chief Corporate Development Officer. Sir, you may begin.

INTRODUCTION:

DAVID L. DUNKEL, CHAIRMAN AND CEO

Thank you Michael.

I am proud of our team's performance for the year ended 2015. We achieved record annual revenues of $1.32 billion, which represents an 8.4% increase year-over-year. We also made significant progress toward our longer term profitability goals, as full year operating margins of 5.6% and earnings per share of $1.52 improved 63% from earnings per share from continuing operations of $0.93 in 2014. This represented the 2nd consecutive year of approximately 50% earnings per share growth. Additionally, we returned nearly $50 million of capital to our shareholders via share repurchases and our quarterly dividend program. We are continually evaluating our use of capital to include share repurchases, debt retirement and acquisitions. Kforce has not completed an acquisition in 7 years as we continue to focus on organic growth.

KFORCE

FOURTH QUARTER 2015 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 9, 2016
PREPARED REMARKS

As we moved into the second half of the year, we experienced deceleration in year-over-year Tech Flex growth rates. This deceleration was greater than we had anticipated in the fourth quarter due predominantly to specific large client dynamics. We experienced early project ends and a slowdown in hiring, and believe the activities at these few clients are very natural given the magnitude of the changes. Recent communications with these customers lead us to believe that there are extensive projects planned but awaiting budget approval. As a result, fourth quarter revenues of $327.7 million were below our expectations. We continue to believe that these client specific headwinds are shorter-term in nature and not a fundamental longer term shift in spend, though we aren't anticipating improvement in the first quarter. As we indicated on our call last quarter, we are working to further diversify our portfolio within other existing significant clients, which are the destination for a large portion of our accelerated hiring of Tech Flex sales associates. We are encouraged that in January we are already seeing the expected improvement in key activities within our priority accounts.

We continue to be very pleased with the exceptional performance of our FA team and the continued progress we are making in capturing customer share, as demonstrated by our excellent above market growth rates.

Even with the lower than anticipated revenue performance, operating margins remained strong at 6.2% and Earnings per Share of 43 cents was within guidance.

Despite the recent widespread uncertainties in the macro-economic environment and recent deceleration in growth rates more broadly in specialty staffing, we are seeing continued strength in the skilled labor markets and a low unemployment rate for college educated professionals, particularly in the Tech and FA specialties that we serve. We believe that the broad-based undercurrents that are helping to drive technology staffing demand such as cloud computing, SaaS, data analytics, mobility and cyber security will continue. Our clients are focused on the development and enhancement of their customer-facing applications and technologies to further enhance their customers' experience as they deliver online products and services. The scarcity of highly skilled technology resources is expected to continue with unemployment levels of these resources being very low.

The BLS temp penetration number remains near record highs as the secular shift towards temporary staffing continues. The combination of the need for flexibility, highly specialized skills, the project nature of work and the regulatory environment is driving customers to greater use of flexible resources.

Across the whole staffing sector, the ever expanding regulatory requirements, particularly around employee classification, have created a higher risk employment environment for clients. We believe this will continue to contribute to larger staffing firms, with robust compliance infrastructure, increasingly being considered a solution of choice for human capital.

It has been 3 years since we began the new era of Kforce and we are pleased with our progress thus far. We are continuously evaluating and updating our strategy including our technology platform, service offerings and alignment to drive efficiencies that enhance the customer experience and improve speed to market. We will maintain a watchful eye toward the investments that we have made, and will continue to make in the first quarter relative to our KPI data, and remain cautiously optimistic.

FOURTH QUARTER 2015 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 9, 2016
PREPARED REMARKS

I will now turn the call over to Joe Liberatore, President, who will provide further details on our Q4 operating results. Dave Kelly, Chief Financial Officer, will then add further color on our Q4 operating trends and financial results as well as provide guidance on Q1.

JOSEPH LIBERATORE, PRESIDENT

Thank you Dave and thanks to all of you for your interest in Kforce…

Our top line performance in Q4 was lower than we anticipated, primarily as a result of the deceleration in year-over-year growth rates in our Tech Flex business. Tech Flex, our largest business unit, which accounts for 65% of total revenues, grew 0.2% year over year in the fourth quarter. As Dave mentioned, the declines we experienced within a few of our Premier clients as a result of internal organization changes and other business disruptions in Q3 led to additional revenue declines in these clients in Q4. We are well positioned within our Premier clients, including those with recent declines, and believe these longstanding relationships provide longer term stability to our overall revenue base.

Early Q1 indicators show strong demand across many industries in our Tech Flex business. The ability to access talent continues to be the most significant constraint in Tech Flex, as exhibited by the continued high level of conversions. Clients realize that talent is scarce and are increasingly looking to make sure they can keep key resources.

In the fourth quarter we were aggressive in adding to our Tech flex sales associate population, given that our hiring over the past two years had been disproportionately focused on recruiting resources. The focus of our hiring has been to add resources at some of our largest clients and diversify within our current portfolio. This recent shift in investment allocation has already begun to influence our leading key performance metrics, though starts levels in January did not accelerate. Strength in demand remains at high levels and broad-based, which provides us the opportunity to further penetrate our expansive client base. As we continue to work through these client specific issues and further diversify our portfolio, we expect Tech Flex revenues to decline sequentially in Q1 due to typical falloff of assignments at year end and for year-over-year growth rates to be stable with Q4 2015.

Our bill/pay spreads in Tech Flex remain stable and we don’t see a need to compromise our pricing to resume Tech Flex growth. Our philosophy continues to be to work with clients that see the value of our services and recognize the shortage of supply of technology talent.

Finance and Accounting flex, which represents 24% of our Total Firm revenues, grew 15.7% year-over-year. This business continues to experience high KPI levels. Growth by industry is broad, but significant drivers to the year-over-year success have been in the Financial Services and Healthcare industries, both of which our National Recruiting Center positions us well to maximize. Our decisions to invest in talent, diversify our client base, and implement operating model adjustments in this segment have contributed to market share gains. We expect Q1 Flex revenues to decrease sequentially on a billing day basis due to calendar year assignment ends, but year-over-year growth rates to remain at or near Q4 levels.

KFORCE

FOURTH QUARTER 2015 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 9, 2016
PREPARED REMARKS

Revenues for Kforce Government Solutions decreased 13.9% year-over-year. Services revenue, which makes up approximately 85% of this business' total revenues, has declined over the past year. The operating environment remains difficult for our government business, but our team has executed well in this challenging landscape with a 100% re-compete success rate in 2015. As we look ahead into 2016, less than 25% of our government business' revenue is scheduled for re-compete. The lower level of re-competes is allowing us to allocate a greater portion of our business to capture resources on new, larger opportunities in our areas of strength: healthcare and audit readiness. We anticipate hearing the outcome for these new procurements in early Q2. We expect our government business to decline slightly on a sequential billing day basis in Q1 and decline on a year-over-year billing day basis in Q1 at slightly lower levels than we experienced in Q4 2015.

Direct Hire revenues from placements and conversions increased 12.6% year over year, and remains approximately 4% of total Firm revenues. We have made some select investments in Direct Hire over the past few quarters, from which we are deriving benefit, and will continue to do so as opportunities and productivity levels present themselves. Our objective is to meet the talent needs of our clients through whatever means they prefer, and providing the highly skilled capability to deliver resources through Direct Hire remains important in meeting those needs. We expect a seasonal improvement in Q1 for Direct Hire and year-over-year growth rates at, or slightly below, Q4 levels.

We accelerated hiring in Q4 and revenue generating talent increased 9.5% year-over-year. As I mentioned earlier, hiring was focused in Tech flex sales talent. We continue to add additional talent in Q1, with a bias on sales associates and expect year over year growth rates to exceed 10% in the first quarter. Our profitability improvements throughout 2015 were realized more quickly than anticipated, which positions us to continue allocating investment towards talent additions without compromising our longer term financial objectives.

We continue to focus on our client, consultants and core associate relationships to drive results, and expect to reaccelerate our momentum in 2016.

I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer, who will provide additional insights on operating trends and expectations.

KFORCE

FOURTH QUARTER 2015 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 9, 2016
PREPARED REMARKS

DAVID M. KELLY, CHIEF FINANCIAL OFFICER

Thank you Joe.

Total revenues for the quarter were $327.7 million, which represents a 2.8% increase year-over-year. Our Flexible staffing revenues collectively grew 4.0% year-over-year, while our government business declined 13.9% year-over-year. Direct Hire revenues of $13.4 million increased 12.6% year-over-year.

Fourth quarter net income and earnings per share were $11.9 million and 43 cents, respectively. Fourth quarter net income and earnings per share represent 33% and 43% year-over-year improvements versus Q4 2014 results of $8.9 million and 30 cents.

Our gross profit percentage in Q4 of 31.6% increased 70 basis points year-over-year. The year-over-year increase is the result of both improvement in our Flex margins and a greater mix of direct hire revenues.

Our Flex gross profit percentage of 28.7% in Q4 increased 50 basis points year-over-year primarily driven by an increase in spreads in our FA Flex business and higher margins in our government business resulting from a mix of product sales, which carry a higher margin profile. We are seeing continued stability in pricing spreads in our Tech Flex business. The stability in spreads is a reflection of flat bill and pay rates year over year as customers remain very cost sensitive. Looking forward, we expect bill/pay spreads to remain relatively stable at these slightly higher levels but for Q1 flex margins to decline by approximately one percent primarily as a result of the reset of payroll taxes seen annually in Q1.

Also of note, we continue to experience favorable trends in federal and state unemployment tax rates. After years of very high costs, the states began lowering their rates in 2015. These reductions are driving unemployment taxes down and we expect this to continue to benefit Flex margins in 2016 as additional states have lowered their rates.

SG&A as a percentage of revenue was 24.6% in Q4, which is flat with Q3 but declined 90 basis points year-over-year from 25.5% in Q4 of 2014. The decline was driven by ongoing expense discipline and lower compensation costs within the quarter. As we look forward, we expect SGA percentage to increase in Q1 due to the acceleration in hiring in Q4 and Q1 and the annual increase in payroll taxes.

Q4 2015 operating margins of 6.2% improved 160 basis points from 4.6% in Q4 2014, driven by a combination of revenue growth, gross margin improvement and SG&A leverage achieved over the past year. We still expect to meet or exceed our 7.5% operating margin target when $1.6 billion in annualized revenue is reached, though near term profitability will be impacted by hiring trends.

As we look at our balance sheet and cash flows, our accounts receivable portfolio continues to perform well. Operating cash flows in the fourth quarter were $15.0 million. Capital expenditures for Q4 were approximately $600,000, while more typical annual levels remain in the $8 million range, but quarterly variability can be expected.

KFORCE®

FOURTH QUARTER 2015 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 9, 2016
PREPARED REMARKS

We continue to maintain significant borrowing capacity in our $170 million Credit Facility. Long-term debt at the end of the quarter was $83.8 million, as compared to $81.4 million at the end of Q3, an increase of $2.4 million.

The Firm repurchased 503,000 shares in Q4 at a total cost of $13.2 million. There is approximately $53 million available for repurchases under current board authorization. We expect to continue balancing the allocation of our capital, after consideration of our capital expenditures and dividends, between stock repurchases and debt retirement as conditions warrant.

With respect to guidance, the first quarter of 2016 has 64 billing days, which is two days more than the fourth quarter of 2015 and is one more day than the first quarter of 2015. We expect Q1 revenue to be in the $323 million to $328 million range, and for Earnings Per Share to be between 24 and 27 cents. The combined impact to Flex Margins and SGA of annual payroll tax increases in Q1 relative to Q4 is expected to be approximately 11 cents per share.

Gross margins are expected to be between 30.6% and 30.9%. SG&A as a percent of revenue is expected to be between 26.3% and 26.6%. Operating margins are expected to be between 3.4% and 3.8%. Our effective tax rate in Q1 is expected to be 39.0%. This guidance assumes weighted average diluted shares outstanding of approximately 27.3 million for Q1.

This guidance does not consider the effect, if any, of charges related to the impairment of intangible assets, any one time costs, costs related to any pending tax or legal matters, the impact on revenues of any disruption in government funding, or the Firm's response to regulatory, legal or tax law changes.

We are very focused on those actions necessary to reaccelerate revenue growth, in particular in our Tech Flex business. The demand environment remains positive and our client relationships remain strong. We continue to manage our investments and profitability and return a significant amount of capital to our shareholders in the form of dividends and share repurchases, which is further confirmation of our belief in the strength of our business. We believe the acceleration in hiring along with diversification within our client base should allow us to reaccelerate revenue growth while generating significant returns for our shareholders.

Michelle, we would now like to open up the call for questions.

DAVID L. DUNKEL, CHAIRMAN AND CEO

Thank you for your interest in and support of Kforce. I would like to say thanks to each and every member of our field and corporate teams, and to our consultants and our clients, for allowing us the privilege of serving you.