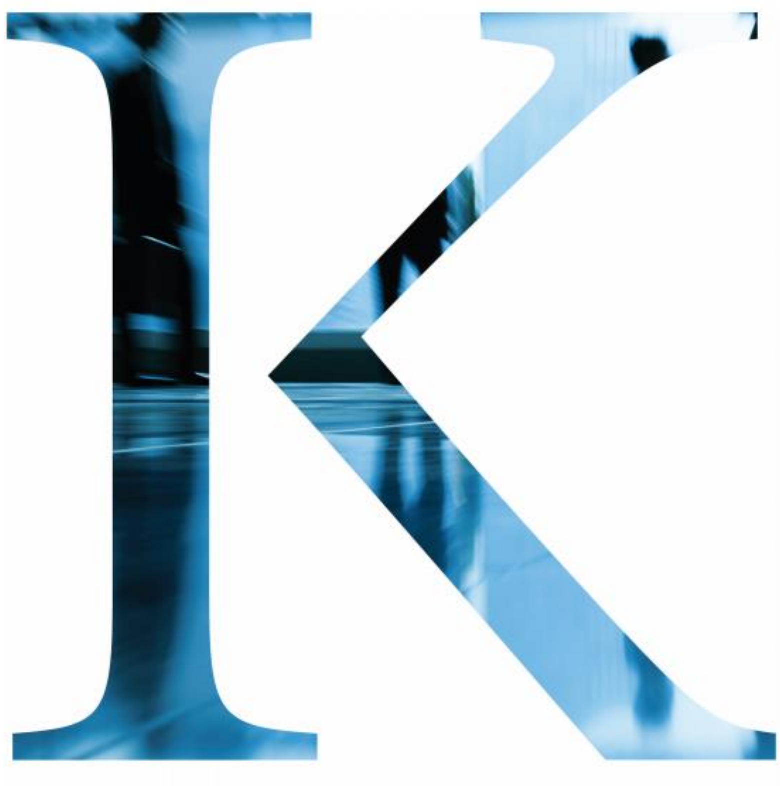
KFORCE®

Q3 2016
CONFERENCE CALL

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



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KFORCE®

THIRD QUARTER 2016 FINANCIAL RESULTS
CONFERENCE CALL, NOVEMBER 1, 2016
PREPARED REMARKS

INTRODUCTION:

DAVID L. DUNKEL, CHAIRMAN AND CEO

You can find additional information about Kforce in our 10-K, 10-Q and 8-K filings with the SEC. We also provide substantial disclosure in our earnings release to assist in better understanding our performance and to improve the quality of this call. We have published our prepared remarks within the Investor Relations portion of our website.

Revenues in the third quarter of $336.5 million were largely as anticipated across all business lines as we continued to make progress in diversifying our client portfolio. We are encouraged by the late-quarter and early October trends in our Tech and FA businesses that are providing momentum heading into the fourth quarter and should allow us to return to positive year-over-year growth overall and in our Tech Flex business.

We have largely completed our organizational realignment, which began earlier this year when we consolidated and streamlined our field operations and certain revenue-enabling support functions. We also made the decision during the third quarter to onshore our support operations in Manila to our corporate headquarters in Tampa, Florida. During the quarter we incurred 10 cents in severance and related costs relative to these organizational changes. This resulted in a reduction in earnings per share to 34 cents. Exclusive of these costs, earnings per share would have been 44 cents, which was in excess of expectations for the quarter.

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We are confident that this streamlined organization will enable us to take advantage of a solid market environment that continues to be in need of skilled technology resources. We are now nearing the end of the seventh year of an economic recovery where the average annual GDP growth has been approximately 2%, which is the lowest rate in any recovery since World War 2. Since mid-2009, both our Tech Flex and FA Flex businesses have grown at an approximately 10% compound annual growth rate, both nearly doubling in size over that period. Over this time period, the U.S. technology temporary staffing market has roughly doubled in size and is nearing the size of the U.S. industrial temporary staffing market. This sustained growth, despite the modest GDP environment, is a reflection of the health of the skilled labor markets in the US, low unemployment rates for college educated workers, and a growing usage of flexible labor, as exhibited by the temp penetration rate remaining near all-time highs.

The expanding and evolving regulatory and employment law environment, including new wage and hour requirements, mandatory sick leave benefits, and increased employee classification scrutiny, among others, have created a higher risk and burdensome employment environment for clients which is one of the drivers of this secular shift. We expect this trend to continue and that it should benefit the staffing industry, and in particular, larger staffing firms with greater capacity and infrastructure to tackle the heightened focus on compliance.

Skilled technology talent is in particularly high demand as companies are becoming increasingly dependent on the efficiencies provided by technology and the need for innovation to support strategies. Technology investment, in particular mobility, cloud computing, cyber security, e-commerce, digital marketing, big data, and business intelligence have contributed to the demand landscape for technology resources. Advancements in these areas will be critical across all industries for companies to remain competitive and meet evolving customer expectations. The shortage of supply for these resources and the need for specialized skill sets in this project-oriented discipline will continue to drive demand. The market remains strong for this higher skilled talent.

We have previously mentioned KGS' March 2016 award of a prime contract by the United States Department of Veterans Affairs on its T4 Next Generation contracting vehicle. During the third quarter, task orders began to be awarded on this $22 billion contract vehicle. This initial group of awards were more concentrated than we anticipated with small businesses as a result of Congressional mandatory set-aside provisions requiring competition in certain instances to be restricted to service-disabled veteran-owned small businesses, which were reinforced in June 2016 in a Supreme Court decision. As a result, KGS was not eligible to submit responses as a prime contractor on some task orders for which it believed it was well qualified. KGS was awarded four new contracts with one as a prime and three as a subcontractor with an aggregate contract value of $6.5 million over 3 years. We were also successful in retaining existing business as a subcontractor under two large re-competes, one of which was bid under the T4 contract vehicle, which have overall contract values of nearly $60 million, which should provide further stability to KGS' revenue base in 2017 and beyond. KGS has been supporting the VA for over 20 years and we believe this relationship is highly valued by our client. We believe that this contract vehicle could be an important growth driver for our government business over the next several years, though the pace of growth and composition of prime versus subcontract awards remains uncertain.

In summary, we are confident in the structure and strength of our organization and believe that the actions taken during the quarter position us well to maximize our market opportunities and we are confident we are on track to achieve our operating margin commitment of 7.5% at $1.6 billion in annualized revenue. In addition, despite continued modest economic growth, we believe we have the ability to grow in the skilled markets and clients that we serve. As such, our bias is to continue to invest in our business to generate long-term shareholder value. These investments include measured and balanced additions to our revenue generating talent, enhanced training and tools as well as continued investments in technology to increase the effectiveness and efficiency of our people.

I will now turn the call over to Joe Liberatore, President, who will provide further details on our Q3 operating results. Dave Kelly, Chief Financial Officer, will then add further color on our Q3 operating trends and financial results as well as provide guidance on Q4.

JOSEPH LIBERATORE, PRESIDENT

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

A key component of the realignment efforts that Dave mentioned has been to ensure that we are putting our revenue generating talent in a position to succeed. This entails not only providing them the proper tools, training and direction but also making sure they are supported by the best leadership and are working efficiently as a team. We have been focused over the last two quarters on rebalancing our talent to increase the ratio of sales talent to recruiters, particularly in our Tech Flex business. The intent of this plan was to reaccelerate our client facing activities and further diversify our client portfolio over a broader range of our largest clients. We are making progress as 7 of our Top 25 Tech Flex clients in Q3 2016 are new to this customer segment as compared to a year ago. Our overall revenue- generating talent is up 1.5% year-over-year, while our Tech Flex sales talent is up 23.7% year-over year. Though aggregate year-over-year growth rates in our associate base have declined in recent quarters, we believe the shift in mix to more appropriate ratios will result in improving productivity and we believe significant capacity exists to grow revenue within the current talent population. We are seeing positive momentum in our leading indicators with 4 week averages improving over 13 week averages, for client visits, job orders, submittals and send outs in both Tech Flex and FA Flex, as well as recent momentum in billable consultants on assignment in both businesses, which is encouraging as we move into the fourth quarter.

Let me get into a bit more detail within each business.

Tech Flex, our largest business unit, which accounts for 65% of total revenues, improved 0.4% sequentially and was down 2.7% on a year-over-year basis. We have seen improving sequential trends in mid-summer and early October, with notable improvements in our overall Top 25 client portfolio. Contributing to these positive trends is an increase in average assignment length. This is another clear indicator that companies value their critical technology resources, while balancing their use against the flexibility provided by using a staffing Firm to procure and manage talent. In terms of performance by industry, we experienced sequential growth in 8 of our top 10 industry verticals, which suggests to us that the demand environment is broad based. Financial services, which is our largest industry concentration, saw disproportionately better growth on both a sequential and year-over-year basis.

Our Tech Flex sales talent is being allocated to the markets and clients that have the greatest level of opportunity. From a skillset standpoint, our teams continue to focus on areas of greatest demand in high demand development skill sets, such as .net and java, as well as cybersecurity, project management and business intelligence.

We expect Tech Flex revenues to increase sequentially in the fourth quarter on a billing day basis and return to growth on a year-over-year basis. We are encouraged by the trends we are seeing in Tech Flex and the broader Technology demand environment.

Our FA Flex business, which represents 23% of our total revenues, declined 0.6% sequentially and 0.5% year-over-year. We have seen recent softness in project work within certain financial services clients, which we believe is predominately a result of internal spend rationalization pressures with the uncertainty in future interest rate trends and a greater focus on technology initiatives. Project ends in the first half of the year negatively impacted growth in FA more broadly, but we have seen encouraging trends in September and into October. We expect FA to grow sequentially in Q4, but may be flat to slightly down year-over-year against a difficult comp from last year.

Revenues for Kforce Government Solutions increased 6.0% sequentially and 10.1% year-over-year, driven by both service and product revenue increases. The KGS leadership team has done a nice job over the last several years of building a solid foundation for growth. There was no revenue of significance derived from the T4 Next Gen contract in Q3. We expect revenues for KGS to decline sequentially due to less product revenue and three less billing days in Q4, but to grow on a year-over-year basis due to growth in services revenue. As we look into 2017, we expect that the two large successful re-competes that Dave mentioned in his remarks along with a relatively low re-compete cycle in 2017 provides a solid revenue base to build upon for KGS.

Direct Hire revenues from placements and conversions declined 8.2% year-over-year and 4.4% on a sequential basis. This revenue stream continues to represent approximately 4% of total Firm revenues. 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 Direct Hire revenues to decrease in Q4 2016 sequentially at a rate reasonably equivalent to the sequential decline we experienced in Q3 2016 due to typical seasonal declines in the 4th quarter as well as the overall uncertainty in the political and economic landscape

We expect comparable year-over-year talent growth rates in Q4 2016 as we experienced in Q3 2016 providing our teams the opportunity to intensify their efforts toward relationships with clients that provide the Firm with the greatest level of opportunity in a demand environment that we continue to believe is favorable. As I previously mentioned, we believe our purposeful shift in talent investment and expansion of our focus on existing clients will result in greater client penetration, market share and better execution of sales and delivery. We are focused on the appropriate actions to take advantage of our platform, infrastructure and client base to put our Great People in an environment where they can be successful and delight our clients and consultants.

Dave Kelly will provide further detail into our Flex gross profit percentage. We are seeing some spread compression in our Flex gross profit percentage, especially in our large client portfolio, as a result of vendor consolidation efforts at our clients where they are looking to increase spend with fewer providers and take advantage of escalating discounts and rebates. We expect that this trend may continue as clients continue to consolidate spend to improve their profitability with providers capable of delivering at scale across multiple geographies.

The last critical step in building a foundation of sustained productivity growth for our sales talent is to provide them the proper tools. To that end, we have been working over the last several quarters towards the implementation of a new front-end customer relationship management system that we expect to begin rolling out in 2017. We believe this, along with other technologies we are investing in will enable our talent to be more effective and efficient in performing their roles, give us the necessary business insights and allow us to better serve our clients and consultants. At the same time, we have recently engaged an organization to assist us in the fourth quarter, refining our sales methodology, messaging and process and to assist in the training and development of our sales talent. We believe these investments will generate a significant return by improving how we consistently engage with and deliver services to our clients, and are expected to enhance our effectiveness and efficiency.

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.

DAVID M. KELLY, CHIEF FINANCIAL OFFICER

Total revenue for the quarter of $336.5 million was in line with our guidance. Revenues grew 0.4% sequentially and declined 1.5% year-over-year. Total flexible staffing revenues, which exclude our government business, grew 0.2% sequentially and declined 2.1% year-over-year, as the year over year decline in Tech Flex narrowed slightly on improving trends in the quarter.

Earnings per share of 34 cents in the quarter included $4.3 million in severance costs related to realignment efforts, which impacted GAAP earnings per share by 10 cents. Excluding the impact of the severance related costs, earnings per share would have been 44 cents, which would have exceeded the top end of our guidance.

Our gross profit percentage in Q3 of 31.3% decreased 40 basis points sequentially and 90 basis points year-over-year. The year-over-year decline in gross profit margins was driven by a 60 basis point decline in Flex gross profit margins, coupled with a reduction in the percentage of high margin direct hire revenues as a percentage of total revenues.

Our flex gross profit percentage of 28.6% in the third quarter decreased 20 basis points sequentially and 60 basis points year-over-year. These declines are primarily due to compression in bill/pay spreads in both our Tech Flex and FA Flex businesses. We also had greater than anticipated health insurance expenses during the quarter driven by a few large claims.

Specific to our Tech Flex spreads, the success we have had in growing revenues due to allocation of resources within our largest clients has created an increased concentration of revenues in this portfolio, which in the aggregate have margins approximately 100 basis points lower than the rest of the portfolio. Flex revenues from our 25 largest clients now represent 47.2% of total Tech Flex revenues. These customers represented 41.7% of total Tech Flex revenues a year ago. In addition to this increased concentration, most of these significant users of flexible resources are increasingly looking to consolidate spend with fewer providers and, for that, gain escalating discounts based upon volume increases. Our FA Flex business has seen similar spread declines as our Tech Flex business.

We expect our Flex gross profit margins to be negatively impacted in Q4 by typical seasonal impacts due to increased paid time off. As we look ahead, the organizational changes we have made reinforce our ability to compete efficiently and profitably in these larger clients and we anticipate success in growing client share. As a result, we expect spreads to be slightly under pressure, though for operating margins to continue to improve as we benefit from a lower marginal cost of delivery in these large clients.

SG&A as a percentage of revenue was 26.1% including a 120 basis point impact from the severance related charge. Excluding the impact of this, SG&A as a percentage of revenue would have been 24.9% in Q3 2016 versus 24.6% in Q3 2015. This is roughly 50 basis points less than we anticipated when providing guidance last quarter, and reflects the beginning of some of the savings we anticipate from our more streamlined organization.

Q3 2016 operating margins were 4.6% including the 120 basis point impact from the severance related charge. Excluding the impact from this charge, operating margins declined 100 basis points year over year to 5.8% in Q3 2016. The year-over-year reduction in operating margins is driven primarily by declines in gross margin. We continue to take a longer term view of our business and expect to continue to make measured investments in additional revenue generating talent and technology enhancements. We expect to absorb these incremental costs and are well positioned to recapture the margin lost from spread compression through reductions in SG&A expense resulting from our streamlining, the effects of which should be fully realized by Q2 of next year.

With respect to our balance sheet and cash flows, our accounts receivable portfolio continues to perform well. Operating cash flows in the third quarter were $13.7 million. Capital expenditures for Q3 were approximately $6.2 million. Q3 operating cash flows were impacted by the timing of certain payments and we expect operating cash flows to accelerate in the 4th quarter, with the range expected to be between $16-20 million.

We continue to maintain significant borrowing capacity under our $170 million Credit Facility. Long-term debt at the end of the quarter was $105 million, an increase of $5.3 million from Q2 2016. Debt is slightly greater than one times trailing twelve month adjusted EBITDA. The combination of strong cash flows and high levels of borrowing capacity provide us significant flexibility.

We repurchased roughly 490,000 shares for $9.3 million during the third quarter and have returned $38.5 million year-to-date to our shareholders; $29.1 million in share repurchases and $9.4 million in quarterly dividends. We continue to believe that our strong balance sheet and strong cash flows provide ample resources to continue to invest in the growth of our business, while returning the cash we generate to our shareholders using these mechanisms.

With respect to guidance, the fourth quarter of 2016 has 61 billing days, which is 3 days less than the third quarter of 2016 and one day less than the fourth quarter of 2015. We expect Q4 revenue to be in the range of $325 million to $330 million, and for Earnings per Share to be between 31 and 33 cents, which includes an approximate 5 cent impact from the sales transformation training initiative that is taking place in the fourth quarter. The seasonal decline in total revenues, lower direct hire mix and reduction in gross margin percentage negatively impact sequential EPS by approximately 9 cents.

Gross margins are expected to be between 30.9% and 31.1%. SG&A as a percent of revenue is expected to be between 25.9% and 26.1%. Operating margins are expected to be between 4.2% and 4.5%. This guidance assumes an effective tax rate of 38.7% and weighted average diluted shares outstanding of approximately 26.0 million for Q4.

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. Of note, there will be certain changes in the accounting for equity-based awards beginning in January 2017; one of which results in excess tax benefits and tax deficiencies recognized upon the vesting of equity awards being recorded in our income statement through income tax expense. The impact of this change depends upon the valuation of our common stock on the vesting dates. Assuming the current valuation of Kforce stock, the impact is expected to be insignificant.

We believe the actions taken over the last several quarters to realign our leadership, rebalance our sales and delivery talent and streamline our operations, as well as those actions we plan to take in the fourth quarter to refine our sales strategy set us up to take advantage of a strong sustained market for highly skilled talent during 2017 and beyond. We believe the combination of these actions will enhance our ability to accelerate revenue growth and create additional operating leverage. We intend to supplement our capabilities with selective additions to our revenue-generating talent and technology enhancements and that this collective strategy will lead to longer term success that is in the best interest of our shareholders. We will remain attentive to the economic landscape and the state of our clients' level of confidence, and will adjust our actions as needed. The actions we have taken reinforce our confidence in honoring our longer term commitment to shareholders to achieve an operating margin of at least 7.5% at $1.6 billion in annualized revenue. This is true even if gross margins don't return to prior levels. At these lower gross margin levels we also still expect operating margins to be in excess of 6.3% at $1.4 billion in annualized revenue.

DAVID L. DUNKEL, CHAIRMAN AND CEO

Thank you for your interest in and support of Kforce. I would like to say thank you 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.