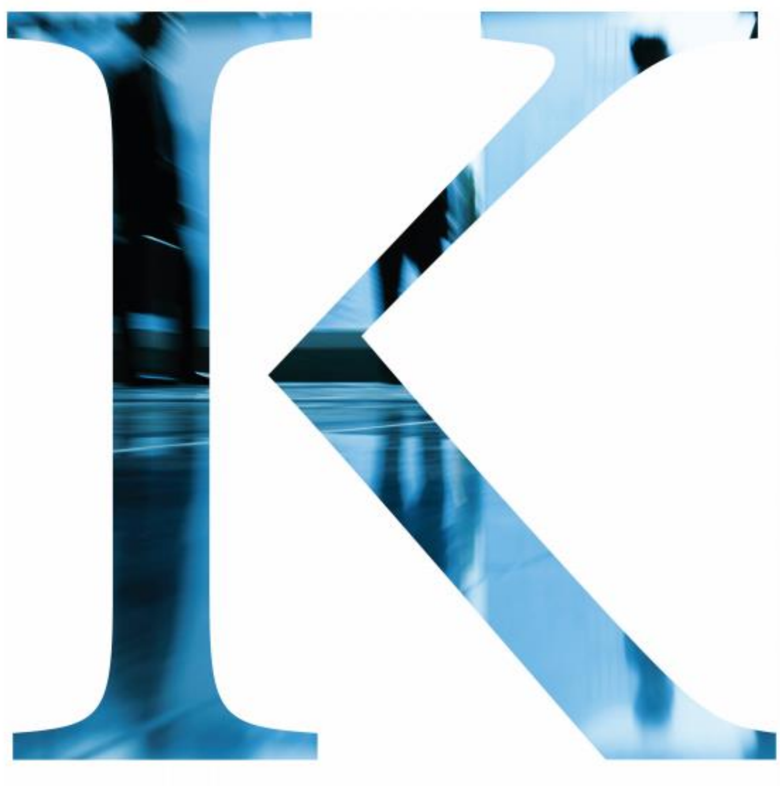
KFORCE®

Q2 2016
CONFERENCE CALL

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



Great People = Great Results®

SECOND QUARTER 2016 FINANCIAL RESULTS
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INTRODUCTION:

DAVID L. DUNKEL, CHAIRMAN AND CEO

You can find additional information about Kforce in our 10-Q and 8-K filings with the SEC. We also provide substantial disclosure in our 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 second quarter improved to $335.0 million and were in line with our guidance. The improvement from Q1 was primarily due to 3.9% sequential growth in our Tech Flex business where we saw the reversal of prior period revenue declines in certain large clients to contribute positively to our sequential growth. Earnings per share of 41 cents was slightly higher than the midpoint of our expectations.

Skilled labor markets in the US continue to reflect solid demand. Unemployment remains low for college educated workers, the temp penetration rate continues to be near all-time highs, and job additions in the month of June were encouraging.

In addition, the expanding and evolving regulatory and employment law environment, including the new wage and hour requirements, mandatory sick leave benefits, employee classification, among others have created a higher risk and burdensome employment environment for clients. This trend should continue to benefit the staffing industry, and in particular, larger staffing firms with greater capacity and infrastructure around areas of compliance.

We believe the secular drivers for technology investment, in particular mobility, cloud computing, cyber security, e-commerce, digital marketing and big data and the overall desire of companies to leverage technology for efficiency gains, will also contribute to demand 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 for flexible resources.

Our FA Flex business is 30% larger than it was only two years ago, driven by nine consecutive quarters of year-over-year double digit growth rates. As companies continue to grow, especially in times of uncertainty, or to mitigate employment risk, they will continue to look to professional staffing providers to meet their talent needs.

As a backdrop against these secular drivers, the US economy has continued to slow as evidenced by last week's Q2 GDP report of 1.2%. Over the past few weeks, employers are becoming increasingly uncertain about near term prospects, particularly in financial services where expected fed rate increases have not materialized. While we continue to see near record levels of job orders, productivity levels of our associates have declined as companies are taking longer to make decisions. These dynamics may be dampening growth rates across the sector, as companies balance this uncertainty against the longer term, mandatory needs for technology investments in particular. As such, we may see slower rates of growth in the near term, though the secular drivers should be sufficient to sustain a positive demand environment over the longer term.

Over the last several quarters, we have been focused on diversifying within our existing client portfolio and the addition of Tech Flex sales associates. While our success over the past few years has been partially driven through gains at our largest clients, we have almost 3,000 clients to whom we provide technology and FA consultants, and many of those clients are significant users of flexible resources where we believe we can gain share. We have made and expect to continue to make meaningful progress towards this diversification effort. Additionally, we have been successful in adding to our sales associate ranks and are in the process of ensuring the proper allocation both against our client base and also by role to ensure the proper sales and recruiting ratios to maximize our efforts. We have seen the anticipated increases in our front-end KPIs, specifically with the volume of activity with our clients, and expect to realize the value from these efforts in accelerated starts activity as we approach the end of the year.

On our first quarter 2016 earnings call, we highlighted that KGS was awarded a prime contract by the United States Department of Veterans Affairs on its T4 Next Generation contracting vehicle. This contract vehicle has an overall program ceiling of approximately $22 Billion, which is expected to be released over a period of 10 years. Things have progressed largely as we had anticipated over the last three months. The protests were resolved as expected, and consistent with Congressional recommendation, 3 additional large businesses were awarded prime contracts, bringing the total number of awardees to 24. We are in the early phase of the procurement cycle and don't expect that the additional number of awardees will have a meaningful impact on either the timing of awards or size of our opportunity. The VA has begun to release a significant volume of RFPs and we have been extremely active in responding to those bids where we believe we have the right capability and highest probability of success. We continue to believe that the T4 Next Gen contract vehicle could provide KGS with an opportunity to experience exponential growth over the next several years beginning in Q4 of 2016 with momentum going into 2017.

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In summary, we see a continued solid demand environment in the midst of increasing economic uncertainty and continue to invest in our long term growth. We continue to make progress on optimizing the alignment of our sales and delivery talent between Tech and FA and allocating our investments in talent toward markets, products, industries and clients that present Kforce with the greatest opportunity for profitable revenue growth. We are also focusing on replacing and upgrading existing technology systems and implementing new technology to allow us to more effectively and efficiently service our clients and candidates and improve the productivity and scalability of the Firm. We remain firmly committed to our profitability target of 7.5% when annualized revenue of $1.6 billion is achieved.

I will now turn the call over to Joe Liberatore, President, who will provide further details on our Q2 operating results. Dave Kelly, Chief Financial Officer, will then add further color on our Q2 operating trends and financial results as well as provide guidance on Q3.

JOSEPH LIBERATORE, PRESIDENT

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

Over the past three quarters, we have made significant strides in diversifying our business to mitigate risk and take advantage of the strength of our client portfolio. These efforts are showing promising signs as clients outside our top 25 grew sequentially at twice the pace of our top 25 clients and should continue to provide additional opportunities to grow our business. However, it is taking longer than anticipated to gain greater presence at many clients, so revenue acceleration typically takes place gradually. We also remain dedicated to providing exceptional service to our largest customers with whom we have long-term relationships. We believe we are pursuing the mix of business that will lead to the greatest long term success.

Tech Flex, our largest business unit, which accounts for 65% of total revenues, performed well and improved 3.9% sequentially, though declining growth rates the prior three quarters has led to the business being down 2.9% on a year-over-year basis. As Dave mentioned, those few large clients that have impacted tech flex growth rates have stabilized and positively contributed to the sequential growth we experienced. In terms of performance by industry, we experienced sequential growth in 9 of our top 10 industry verticals which suggests that demand remains solid across industries. Financial services, which is our largest industry concentration, grew both sequentially and year-over-year.

Over the past several quarters, we have added a significant number of sales associates in Tech Flex. The intent of this concentrated effort has been to ensure the proper ratio of sales to recruiting associates. Our teams continue to focus on areas of greatest demand and competency in the application development market, our largest population by skill set in areas, such as .net, java and UI/UX.

We expect Tech Flex revenues to increase slightly in the third quarter on a sequential basis, though still expect a slight decline on a year-over-year basis.

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Our FA Flex business, which represents 23% of our total revenues, grew 1.9% sequentially and 5.5% year-over-year. Our second quarter performance was driven by the full quarter impact of projects that ended in Q1. In addition, we have seen recent softness in certain financial services clients, which is predominately a result of internal spend rationalization pressures.

This business continues to experience historically solid demand and KPI levels, though we have not onboarded any new significant projects that would help mitigate the project ends we experienced earlier in the year. Additionally, as we have seen in our Tech Flex business, conversion activity remains elevated due to a shortage of available talent. We expect FA to be flat sequentially and year-over-year in the third quarter on a continued very difficult comp.

Revenues for Kforce Government Solutions increased 9.4% sequentially and 4.2% year-over-year. The KGS leadership team has done an admirable job over the last several years of building a solid foundation for growth. The improved results in Q2 for this unit include no revenue from the new T4 Next Gen contract. In fact, KGS continues to have success in other business opportunities within its portfolio. After having a heavy recompete year in 2015, they have been able to turn their business development team more fully on winning new procurements, which is evidenced by the $22.9 million in new awards received in Q2, which will result in an increased baseline in revenue over the next 3-5 years. These efforts should help fortify this business along with the anticipated new revenue from T4 once task orders begin to be awarded. We expect KGS revenues to improve sequentially and year-over-year in Q3 2016.

Direct Hire revenues from placements and conversions declined 6.0% year-over-year, but increased 8.0% 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 slightly sequentially in Q3 2016.

We added significantly to our associate base late last year and in Q1, and have begun realigning the ratios of our sales and recruiting teams. On a year-over-year basis, revenue generating talent grew 5.9% in the 2nd quarter. We expect to maintain these levels in Q3 as we focus on completing our rebalancing of sales and delivery talent and further intensify our relationships with clients that provide the Firm with the greatest level of opportunity. 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 delivery. We believe additional capacity exists within the overall talent population, and more specifically those associates with less than 2-years of tenure, as they mature in their roles. 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.

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.

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DAVID M. KELLY, CHIEF FINANCIAL OFFICER

Thank you Joe.

Total revenue for the quarter of $335.0 million, which was in line with our guidance, grew 4.0% sequentially and declined 0.7% year-over-year. Total flexible staffing revenues, which exclude our government business, grew 3.4% sequentially and declined 0.8% year-over-year.

Earnings per share of 41 cents was flat on a year-over-year basis. Second quarter net income of $10.9 million increased $4.5 million, or 70.7%, from adjusted net income, a non-GAAP financial measure, of $6.4 million in the first quarter, but declined 6.3% year-over-year.

Our gross profit percentage in Q2 of 31.7% increased 150 basis points sequentially and 30 basis points year-over-year. The year-over-year improvement in gross profit margins of 30 basis points was driven by a 50 basis point increase in Flex gross profit margins, which was partially offset by a lower mix of Direct Hire revenue.

Our flex gross profit margins, and particularly bill/pay spreads in our staffing businesses, continue to trend slightly better than expectations due to solid demand. Our flex gross profit percentage of 28.8% in the second quarter increased 150 basis points sequentially and 40 basis points year-over-year. The sequential increase was primarily driven by the seasonal reduction in payroll taxes, which positively impacted Flex margins by 110 basis points, as well as an increase in government margins resulting from fewer holidays and lower health care expense in Q2 relative to Q1. On a year-over-year basis, Tech Flex and FA Flex margins both improved 20 basis points, as bill/pay spreads improved 10 basis points in Tech Flex and 40 basis points in FA Flex. Government margins improved 310 basis points on a year-over-year basis mainly driven by a provision made in the 2nd quarter of 2015 for expected losses under one of KGS' contracts. We expect the margin profile in Tech Flex, FA Flex and Government to be stable in Q3 from Q2 levels. Longer term, we expect some improvement in Government margins as we win new business on T4 Next Gen as well as other contract vehicles.

SG&A as a percentage of revenue increased 80 basis points year-over-year to 25.5% in Q2 2016 versus 24.7% in Q2 2015 primarily as a result of hiring of revenue generating talent over the past three quarters and increased information technology spend. We expect SG&A as a percentage of revenue to be stable in Q3 relative to Q2 levels as the hires we have made continue to ramp their activity levels in the second half of 2016.

Q2 2016 operating margins of 5.5% declined 60 basis points from 6.1% in Q2 2015. Though the investments we have made and continue to make in revenue generating talent and technology are negatively impacting near term margins, we continue to take a longer term view of our business and market prospects. We are confident that the efficiencies gained from the technology investments and the improved productivity gained as our new associates ramp will be critical in achieving more profitable, sustainable above-market growth.

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With respect to our balance sheet and cash flows, our accounts receivable portfolio continues to perform well. Operating cash flows in the second quarter were $12.6 million. Capital expenditures for Q2 were approximately $1.9 million. As a reminder, cash flows are typically strongest in our business during the second half of the year. We expect operating cash flows in the third quarter to be between $22-25 million.

We continue to maintain significant borrowing capacity under our $170 million Credit Facility. Long-term debt at the end of the quarter was $99.7 million, a decrease of $7.3 million. Debt is roughly equivalent to one times trailing twelve month EBITDA. The combination of strong cash flows and high levels of borrowing capacity provide us significant flexibility.

There were no share repurchases made during the second quarter, though we have returned $26.1 million to our shareholders through the first half of the year in the form of $19.8 million in share repurchases and $6.3 million in quarterly dividends. The aggregate of these two items reflect approximately 200% of our year-to-date free cash flow.

The Board of Directors recently approved an increase in total share repurchase authorizations up to $75 million. As we look to the future, we expect to continue balancing the allocation of our capital, after capital expenditures and dividends, between stock repurchases and debt retirement as conditions warrant.

With respect to guidance, the third quarter of 2016 has 64 billing days, which is same as the second quarter of 2016 and the third quarter of 2015. We expect Q3 revenue to be in the range of $335 million to $339 million, and for Earnings per Share to be between 41 and 43 cents.

Gross margins are expected to be between 31.5% and 31.7%. SG&A as a percent of revenue is expected to be between 25.3% and 25.5%. Operating margins are expected to be between 5.4% and 5.7%. This guidance assumes an effective tax rate of 39.1% and weighted average diluted shares outstanding of approximately 26.3 million for Q3.

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 remain focused on the actions necessary to reaccelerate our revenue growth and build a leverageable model that will produce sustainable above market revenue growth and profitability. We believe the investments we are making in talent, technology and in KGS are critical to our long term success and in the best interest of our shareholders.

Our historical client relationships remain strong and we are evolving new relationships through our diversification efforts. These new efforts are having a near term negative impact on productivity and revenue growth but we are confident they will gradually contribute at an accelerating pace. We have also seen recent caution from some of our customers which has impacted productivity levels and slowed revenue growth. Although conditions have weakened from peak levels, we believe the environment remains solid and the secular drivers should be sufficient to sustain demand over the long term. We will remain vigilant in assessing the economic landscape and adjusting our actions as necessary and remain confident in achieving 7.5% operating margins when $1.6 billion in annualized revenue is reached.

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.