Annual Report 2016

KFORCE®

Great People = Great Results℠

KFORCE® is a professional staffing and solutions firm specializing in the areas of technology and finance & accounting, serving both commercial and government organizations. Headquartered in Tampa, Florida, Kforce has been matching highly skilled talent and employers since 1962. Today, Kforce provides staffing services and innovative solutions through more than sixty offices located throughout the United States. With a commitment to "Great People = Great Results," Kforce is dedicated to being the Firm most respected by those we serve. For more information, please visit www.kforce.com.

TECHNOLOGY

As the 5th largest technology staffing firm in the U.S., we engage more than 16,000 consultants annually in technology roles on a temporary, consulting and direct-hire basis.

Our Technology professionals range from project managers to developers to data and network architects and technicians:

- **PROJECT MANAGEMENT AND BUSINESS ANALYSIS** offers a full suite of functional professionals to support the full scope of your initiative.
- **APPLICATION DEVELOPMENT** supports applications and systems software creation and maintenance.
- **ENTERPRISE DATA MANAGEMENT** supports any operating environment from unstructured to mature Big Data.
- **INFRASTRUCTURE** specializes in providing reliable infrastructure support to build and maintain the backbone of your organization.

FINANCE & ACCOUNTING

As the 3rd largest finance and accounting staffing firm in the U.S., we engage more than 21,000 highly skilled professionals annually in finance and accounting roles on a temporary, consulting and direct-hire basis.

Our Finance & Accounting professionals range from strategic and operational to transactional and professional administration:

- **OPERATIONAL AND TECHNICAL** professionals perform day-to-day accounting and staff-level analysis, which includes directing, controlling and planning.
- **TRANSACTIONAL** functions include Accounts Receivable, Accounts Payable and Payroll.
- **PROFESSIONAL ADMINISTRATION** tasks include Loan Servicing, Benefits Administration, Customer Service/Call Center, Data Entry, Human Resources and Professional Administrative Support.

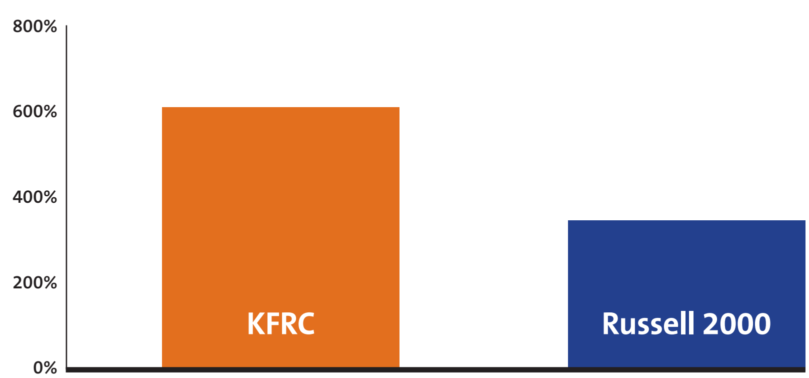
GOVERNMENT SOLUTIONS

Kforce Government Solutions (KGS), a wholly-owned subsidiary of Kforce, is a government contracting services and solutions provider that has offered a comprehensive portfolio of solutions to a wide range of Federal and Defense agencies since 1970. Headquartered in Fairfax, VA with offices in San Antonio, TX and Tampa, FL:

- **KGS** offers a full range of solutions in the areas of Healthcare Informatics, Financial Management and Accounting, Enterprise Technology, Engineering and Intelligence.

This Annual Report contains forward-looking statements (within the meaning of the federal securities laws). Please see the "Special Note Regarding Forward-Looking Statements" contained in the introductory portion of our Annual Report on Form 10-K for the year ended December 31, 2016 for additional information regarding forward-looking statements.

The total shareholder return on our stock has been 611%, outperforming the Russell 2000 Index, which has returned 351% over the same period.



Kforce stock performance vs. Russell 2000 from 8/15/95 (IPO) to 12/31/16

TO OUR FELLOW SHAREHOLDERS, CLIENTS, CONSULTANTS AND EMPLOYEES:

2016 was a year of considerable transformation for Kforce. Although we are disappointed with our financial results, we are confident in the structure and strength of our organization and believe that the actions we have taken during the past year, in support of our longer-term strategy, position us well to maximize our market opportunities.

One of the key changes we made was to consolidate and streamline our sales and delivery organization under a single Chief Operations Officer. This change has allowed us to rapidly rebalance and deploy our talent to more effectively meet customer needs and also drive greater consistency and accountability for revenue generating activities across the enterprise. During the fourth quarter, we commenced an ongoing sales transformation initiative to enhance our sales methodology and train our sales associates to engage in more strategic conversations and shape solutions with our clients. During the past year, we also made significant progress toward a rollout of a new customer relationship management system which will incorporate our sales methodology to reinforce execution. This rollout is a critical piece of a multi-year effort to replace and upgrade our technology tools to equip our associates with significantly improved capabilities to deliver exceptional service to our clients, enhance productivity and accelerate associate ramp-up. As we move into 2017, we believe these actions have laid a solid foundation for acceleration of our year-over-year revenue growth.

With respect to market and industry observations, we believe the domestic specialty staffing industry is healthy, driven by both secular and cyclical forces. The overall employment environment improved in 2016 with the addition of 2.2 million non-farm jobs and the decline of unemployment to 4.7% in December 2016. Particularly important to staffing, temporary workers as a percentage of the total workforce ended the year at 2.04%, near record levels. Even more relevant to Kforce given our focus on highly skilled knowledge workers, the college-level unemployment rate was 2.5% in December 2016, about half the overall unemployment rate. In 2017, the domestic market for technology staffing is projected to approach $30 billion (about 6% growth) and the finance & accounting staffing market is projected to be $8 billion (about 6% growth). We believe we have an opportunity to improve upon our approximate 3% market share in each of these markets.

Throughout much of 2016, the virulent presidential election and expectations for a slowing period of economic growth caused uncertainty and a hesitancy by our clients to make new commitments for 2017 investments. It was widely anticipated that we were approaching the end of the current economic cycle and that the economy was close to a recession. The surprise election outcome and corresponding policy expectations had a tangible effect on optimism and brought greater clarity for economic prospects. We believe this increased optimism combined with the commencement of our sales transformation initiative resulted in improving trends late in the fourth quarter of 2016. Given the pace of likely reform under the Trump administration in large and complex areas such as immigration, health care, financial regulation, and corporate taxation, we are closely monitoring the potential impacts, both positive and negative, on our business. To date, most of the details regarding the potential reform in these areas have not yet been clearly communicated.

Skilled technology talent continues to be in high demand and the potential tightening of immigration standards is expected to exacerbate the supply shortages. The secular drivers of technology spend remain intact with many companies now becoming increasingly dependent on the efficiencies provided by technology and the need for innovation to support business strategies and sustain relevancy in today's rapidly changing marketplace. Technology investments, in particular mobility, cloud computing, cybersecurity, e-commerce, machine learning, digital marketing, advancements in the use of big data, and business intelligence have contributed to the demand landscape for technology resources. Given the ubiquitous nature of technology, we believe that advancements in these areas will continue to fuel demand, as companies strive to remain competitive and meet evolving customer expectations. Overall, our industry continues to experience a secular shift as our clients seek workforce flexibility and just-in-time skilled labor. In addition, the heightened scrutiny around immigration and employee classification have created a higher risk employment environment for clients. We believe these trends will cause our clients to continue to rely on larger staffing firms with robust compliance infrastructures as their solution of choice for human capital.

In 2016 and early 2017, we were very pleased to have continued our efforts toward refreshing and diversifying our Board of Directors through the addition of two distinguished individuals to our Board, General (Ret.) Ann Dunwoody and Randall Mehl. General (Ret.) Dunwoody was the first woman in U.S. military history to achieve the rank of four-star general, and also served as a strategic planner for the Chief of Staff of the Army. She currently serves on the Board of Directors of Republic Services Inc. (NYSE), L-3 Communications (NYSE) and Logistics Management Institute. Mr. Mehl is President and Chief Investment Officer of Stewardship Capital Advisors, LLC, which manages an equity fund focused on making investments in business and technology services. He previously served as a Managing Director and a partner with Baird Capital, a middle market private equity group, and led a team focused on the business and technology services sector from 2005 until the end of 2016. From 1996 to 2005, Mr. Mehl was a senior equity research analyst with Robert W. Baird & Company, covering various areas within the broader business and technology services sector.

Looking at our overall financial performance and by service line in 2016:

- Kforce reported annual revenues of $1.32 billion in 2016, which was flat with 2015. Net income for the year ended December 31, 2016 was $32.8 million, or $1.25 per share, which represented a decrease of 23.5%, or 17.8% per share, compared to net income and diluted earnings per share for the year ended December 31, 2015 of $42.8 million, or $1.52 per share. During the year we returned a total of $56.4 million in capital to our shareholders, in the form of $44.0 million in open market share repurchases and $12.4 million in dividends.

- Revenues for our largest business unit, Tech Flex, of $863.4 million represented 65.4% of our total net service revenues. Tech Flex revenues decreased 1.2% in 2016 over 2015. We began to see improvements in sequential revenue trends coming out of the summer months and experienced a 1.4% year-over-year increase on a billing day basis in the fourth quarter. As we look to 2017, our activity levels have remained elevated, which suggests continued strength in demand within our Tech clients. We are also continuing to benefit from positive trends in the length of our average assignment, which we believe is driven by the desire of our clients to retain qualified and skilled IT talent.

- Revenues for our FA Flex business of $307.2 million represented 23.3% of our total net service revenues. FA Flex revenues increased 4.4% in 2016 over 2015. Our activity levels and assignment starts volume were particularly strong in the fourth quarter of 2016. From an industry perspective, 9 out of our Top 10 verticals saw sequential billing day improvement in the fourth quarter, with Financial Services, Business Services and Retail experiencing notable growth.

- Revenues for our Government Solutions ("GS") segment of $98.6 million represented 7.5% of our total net service revenues. GS revenues increased 1.3% in 2016 compared to 2015. Our GS segment provides staffing services and solutions to the Federal Government as both a prime contractor and subcontractor in the fields of information technology and finance and accounting, as well as a product business specializing in manufacturing and delivering trauma-training manikins. Due to KGS's successful recompete efforts, we believe over 95% of KGS' revenue base is secure heading into 2017, which will allow it to focus on efforts to maximize the capture of prime and subcontractor opportunities under the T4 Next Gen contract, as well as their other new business development efforts.

- Direct Hire revenues of $50.4 million represented 3.8% of our total net service revenues. Direct Hire revenues decreased 6.8% in 2016 over 2015. We provide direct hire services to our clients in both Tech and FA. Our objective is to meet the talent needs of our clients through whatever means they prefer, and we will continue to provide this capability going forward.

We believe the actions taken in 2016 to realign our field leadership, rebalance our sales and delivery talent, refine our sales strategy and streamline our operations set us up to take advantage of a strong and sustained market for highly skilled talent during 2017 and beyond. We anticipate the combination of these actions will enhance our ability to accelerate revenue growth and create additional operating leverage as the Firm grows and the productivity of our associates improves. We expect to supplement our capabilities with selective additions to our revenue-generating talent and technology enhancements and believe that this collective strategy will lead to longer-term success. The actions we have taken in 2016 reinforce our confidence in achieving our long-term stated goals of an operating margin of at least 6.3% at $1.4 billion and at least 7.5% at $1.6 billion in annualized revenue.

We are also very proud that Stewardship and Community, a Kforce Core Value, is a way for our Great People to give back to their communities and support charities, organizations, and people in need by contributing time and making a difference in the lives of others. In 2016, Kforce employees spent approximately 15,000 hours supporting more than 125 charities nationwide.

We are very optimistic about our prospects in 2017 and beyond and appreciate your continued interest and support. Thanks to each and every member of our field and corporate teams, as well as to our consultants, clients and shareholders, for allowing us the privilege of serving you.

David L. Dunkel
Chairman and
Chief Executive Officer

Joseph J. Liberatore
President

SELECTED FINANCIAL DATA

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Kforce's Consolidated Financial Statements and the related notes thereto incorporated into this Annual Report, hereinafter collectively referred to as "Consolidated Financial Statements."

Years Ended December 31,	**2016**	2015	2014(1)	2013(2)(3)	2012(4)(5)
(In thousands, except per share amounts)					
Net service revenues	**$1,319,706**	$1,319,238	$1,217,331	$1,073,728	$1,005,487
Gross profit	**408,499**	414,114	374,581	344,376	320,586
Selling, general and administrative expenses	**341,196**	330,416	315,338	307,944	305,940
Goodwill impairment	**—**	—	—	14,510	69,158
Depreciation and amortization	**8,701**	9,831	9,894	9,846	10,789
Other expense, net	**2,647**	2,195	1,392	1,147	1,057
Income (loss) from continuing operations, before income taxes	**55,955**	71,672	47,957	10,929	(66,358)
Income tax expense (benefit)	**23,182**	28,848	18,559	5,635	(24,227)
Income (loss) from continuing operations	**32,733**	42,824	29,398	5,294	(42,131)
Income from discontinued operations, net of income taxes	**—**	—	61,517	5,493	28,428
Net income (loss)	**$ 32,733**	$ 42,824	$ 90,915	$ 10,787	$ (13,703)
Earnings (loss) per share—basic, continuing operations	**$1.26**	$1.53	$0.94	$0.16	$(1.18)
Earnings (loss) per share—diluted, continuing operations	**$1.25**	$1.52	$0.93	$0.16	$(1.18)
Earnings (loss) per share—basic	**$1.26**	$1.53	$2.89	$0.32	$(0.38)
Earnings (loss) per share—diluted	**$1.25**	$1.52	$2.87	$0.32	$(0.38)
Weighted average shares outstanding—basic	**26,099**	27,910	31,475	33,511	35,791
Weighted average shares outstanding—diluted	**26,274**	28,190	31,691	33,643	35,791
Cash dividends declared per share	**$0.48**	$0.45	$0.41	$0.10	$ 1.00

As of December 31,	**2016**	2015	2014	2013	2012
(In thousands)					
Working capital	**$ 140,152**	$ 126,788	$ 130,226	$ 112,913	$ 72,685
Total assets	**$ 365,421**	$ 351,822	$ 363,922	$ 347,768	$ 325,149
Total outstanding borrowings on credit facility	**$ 111,547**	$ 80,472	$ 93,333	$ 62,642	$ 21,000
Total long-term liabilities	**$ 160,332**	$ 124,449	$ 130,351	$ 100,562	$ 56,429
Stockholders' equity	**$ 121,736**	$ 139,627	$ 139,388	$ 157,233	$ 169,846

(1) During 2014, Kforce disposed of Kforce Healthcare, Inc. ("KHI"), a wholly-owned subsidiary of Kforce Inc. and operator of the former Health Information Management ("HIM") reporting segment. The results of operations for KHI have been presented as discontinued operations for the years ended December 31, 2014, 2013 and 2012. See Note 2 – "Discontinued Operations" in the Notes to Consolidated Financial Statements, included in this Annual Report for more detail.

(2) Kforce recognized a goodwill impairment charge of $14.5 million related to the GS reporting unit during 2013. The tax benefit associated with this impairment charge was $5.2 million, resulting in an after-tax impairment charge of $9.3 million.

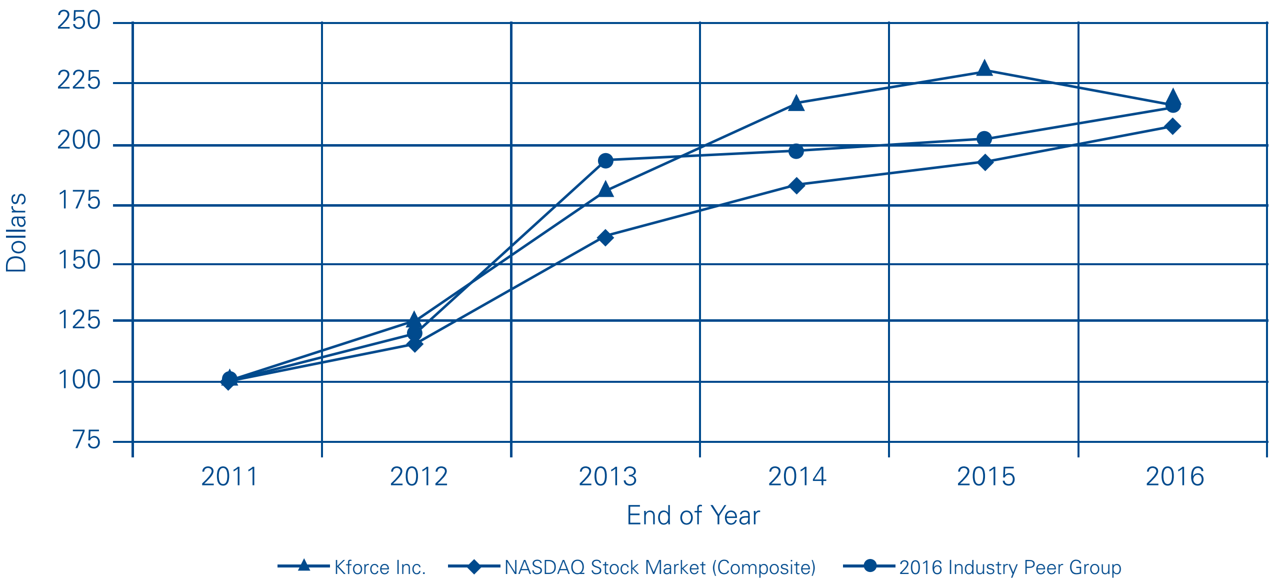
(3) During 2013, Kforce commenced a plan to streamline its leadership and support-related structure to better align a higher percentage of personnel in roles that are closest to the customer through an organizational realignment. As a result of the organizational realignment, Kforce incurred severance and termination-related expenses of $7.1 million during 2013 which were recorded within SG&A. Additionally, in connection with the realignment and succession planning, the Compensation Committee approved discretionary bonuses of $3.6 million paid to a broad group of senior management during the fourth quarter of 2013.

(4) Kforce recognized a goodwill impairment charge of $69.2 million related to the GS reporting unit during 2012. The tax benefit associated with this impairment charge was $24.7 million, resulting in an after-tax impairment charge of $44.5 million.

(5) In connection with the disposition of Kforce Clinical Research, Inc., the Board exercised its discretion, as permitted within the Kforce Inc. 2006 Stock Incentive Plan, to accelerate the vesting, for tax planning purposes, of substantially all of the outstanding and unvested restricted stock and alternative long-term incentive awards on March 31, 2012, which resulted in the acceleration of $31.3 million of compensation expense and payroll taxes recorded during the three months ended March 31, 2012.

STOCK PRICE PERFORMANCE

The following graph is a comparison of the cumulative total returns for Kforce common stock as compared with the cumulative total return for the 2016 Industry Peer Group and the NASDAQ Stock Market (U.S.) Index. Kforce's cumulative return was computed by dividing the difference between the price of Kforce common stock at the end of each year and the beginning of the measurement period (December 31, 2011 to December 31, 2016) by the price of Kforce common stock at the beginning of the measurement period. Cumulative total returns for Kforce, the 2016 Industry Peer Group and the NASDAQ include dividends in the calculation of total return and are based on an assumed $100 investment on December 31, 2011, with all returns weighted based on market capitalization at the end of each discrete measurement period. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Kforce common stock. For purposes of the TSR graph below, Kforce has been excluded from the 2016 Industry Peer Group.



Investment of $100 on December 31, 2011	2011	2012	2013	2014	2015	2016
Kforce Inc.	100.0	125.6	180.1	216.5	231.1	216.3
NASDAQ Stock Market (Composite)	100.0	115.9	160.3	181.8	192.2	206.6
2016 Industry Peer Group	100.0	120.6	192.7	197.3	202.4	215.3

2016 Industry Peer Group:

CDI Corporation
Computer Task Group, Inc.
Kelly Services, Inc.
ManpowerGroup Inc.
On Assignment, Inc.
Resources Connection, Inc.
Robert Half International Inc.
TrueBlue, Inc.

In determining the industry peer group, we focus on selecting publicly traded staffing companies active in recruiting and placing similar skill sets at similar types of clients. The specialty staffing industry is made up of thousands of companies, most of which are small local firms providing limited service offerings to a relatively small local client base. Based on a report published by Staffing Industry Analysts in 2016 regarding the largest staffing firms in the United States, we estimate Kforce is one of the 10 largest publicly-traded specialty staffing firms in the United States.

In addition to the specific staffing industry in which companies operate, other primary criteria for this peer group selection includes peer company customers, revenue footprint (i.e., revenue derived from different industries as a percentage of total revenue), geographical presence, talent, capital, size (i.e., total revenue, market capitalization and domestic presence), complexity of operating model and companies with which we compete for executive level talent. Most importantly, we consider the companies in the industry peer group as our direct business competitors on a day-to-day basis and, as a result, their size and scope varies considerably.

There was no change in the industry peer group between 2015 and 2016.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the NASDAQ Global Select Market using the ticker symbol "KFRC." The following table sets forth, for the periods indicated, the high and low intra-day sales price of our common stock, as reported on the NASDAQ Global Select Market. These prices represent inter-dealer quotations without retail markups, markdowns or commissions, and may not represent actual transactions.

Three Months Ended	March 31,	June 30,	September 30,	December 31,
2016				
High	**$25.00**	**$20.40**	**$20.55**	**$24.25**
Low	**$14.87**	**$15.78**	**$16.22**	**$15.95**
2015				
High	$24.99	$23.92	$29.33	$28.84
Low	$21.34	$20.32	$21.83	$22.90

From January 1, 2017 through February 22, 2017, the high and low intra-day sales price of our common stock was $21.28 and $26.95, respectively. On February 22, 2017, the last reported sale price of our common stock on the NASDAQ Global Select Market was $25.20 per share.

Holders of Common Stock

As of February 22, 2017, there were approximately 162 holders of record.

Dividends

Kforce's Board may, at its discretion, declare and pay dividends on the outstanding shares of Kforce's common stock out of retained earnings, subject to statutory requirements. Dividends for any outstanding and unvested restricted stock as of the record date are awarded in the form of additional shares of forfeitable restricted stock, at the same rate as the cash dividend on common stock and based on the closing stock price on the record date. Such additional shares have the same vesting terms and conditions as the outstanding and unvested restricted stock. The following table provides quarterly dividend information for the years ended December 31, 2016 and 2015:

Three Months Ended	March 31,	June 30,	September 30,	December 31,
2016	**$0.12**	**$0.12**	**$0.12**	**$0.12**
2015	$0.11	$0.11	$0.11	$0.12

Kforce currently expects to continue to declare and pay quarterly dividends of a similar amount. However, the declaration, payment and amount of future dividends are discretionary and will be subject to determination by Kforce's Board each quarter following its review of, among other things, the Firm's financial performance and our legal ability to pay dividends. There can be no assurances that dividends will be paid in the future.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the risks inherent in its operations, Kforce is exposed to certain market risks, primarily changes in interest rates.

As of December 31, 2016, we had $111.5 million outstanding under our credit facility. Our weighted average effective interest rate on our credit facility was 2.40% at December 31, 2016. A hypothetical 10% increase in interest rates in effect at December 31, 2016 would have an increase to Kforce's annual interest expense of less than $0.3 million.

We do not believe that we have a material exposure to fluctuations in foreign currencies because our international operations represented less than 1% of net service revenues for the year ended December 31, 2016, and because our international operations' functional currency is the U.S. Dollar. However, Kforce will continue to assess the impact which currency fluctuations could have on our operations going forward.

Company Overview

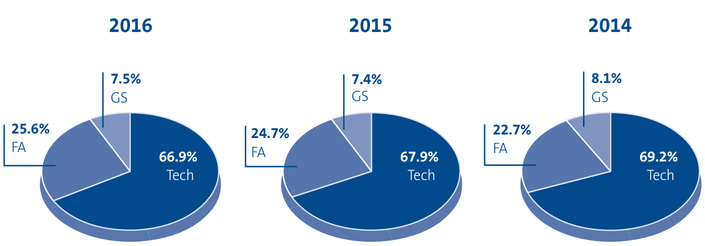
Kforce Inc. and its subsidiaries (collectively, "Kforce") provide professional and technical specialty staffing services and solutions to customers through the following segments: Technology ("Tech"), Finance and Accounting ("FA"), and Government Solutions ("GS"). Kforce provides flexible staffing services and solutions on both a temporary ("Flex") and permanent ("Direct Hire") basis. We operate through our corporate headquarters in Tampa, Florida and 61 field offices located throughout the U.S., as well as an office in Manila, Philippines. Kforce was incorporated in 1994 but its predecessor companies, Romac & Associates, Inc. and Source Services Corporation have been providing staffing services since 1962. Kforce completed its Initial Public Offering in August 1995.

Kforce serves clients from the Fortune 1000, the Federal Government, state and local governments, local and regional companies and small to mid-sized companies. Our 10 largest clients represented approximately 25% of revenues and no single customer accounted for more than 6% of revenues for the year ended December 31, 2016.

Substantially all of our revenues are derived from domestic operations with customers located in the U.S. and substantially all long-lived assets were located in the U.S. for the years ended December 31, 2016, 2015 and 2014. Our international operations comprised approximately 1% of net service revenues for the years ended December 31, 2016, 2015 and 2014 and are included in our Tech segment.

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers' businesses. Our reporting segments are significantly impacted by the increase in the number of holidays and vacation days taken during the fourth quarter of the calendar year. In addition, we experience an increase in direct costs of services and a corresponding decrease in gross profit in the first fiscal quarter of each year as a result of certain annual U.S. state and federal employment tax resets that occur at the beginning of each year.

The following charts depict the percentage of our total revenues for each of our segments for the years ended December 31, 2016, 2015 and 2014 (the chart for 2014 excludes our former Health Information Management ("HIM") segment, which we sold in 2014):



For additional segment financial data see Note 13 – "Reportable Segments" in the Notes to Consolidated Financial Statements, included in this Annual Report.

Tech

Our Tech segment provides both temporary staffing and permanent placement services to our clients, focusing primarily on areas of information technology such as systems/applications architecture and development, project management, enterprise data management, business intelligence, e-commerce, technology infrastructure, network architecture and security. Revenues for our Tech segment decreased 1.4% to $883.5 million for the year ended December 31, 2016 as compared to $895.9 million for the year ended December 31, 2015. The average bill rate for our Tech segment for 2016 was approximately $67 per hour. Our Tech segment provides service to clients in a variety of industries with a strong footprint in the financial services, communications, insurance services and government sectors. A September 2016 report published by Staffing Industry Analysts ("SIA") stated that temporary technology staffing is expected to experience growth of 6% in 2017. We believe the primary drivers of this growth and the continuing use of temporary staffing as a solution during uncertain economic cycles are the increasingly strict regulatory environment and cost of employment, both of which are driving the systemic use of temporary staffing, particularly in project-based work such as technology, and the increasing demand for talent in areas like cybersecurity, cloud-based computing, data analytics and application development. The secular drivers of technology spend have remained intact with many companies now becoming increasingly dependent on the efficiencies provided by technology and the need for innovation to support business strategies and sustain relevancy in today's rapidly changing marketplace. The SIA report also provides that notable skill shortages in certain technology skill sets are expected to continue.

FA

Our FA segment provides both temporary staffing and permanent placement services to our clients in areas such as general accounting, business analysis, accounts payable, accounts receivable, financial analysis and reporting, taxation, budget preparation and analysis, mortgage and loan processing, cost analysis, professional administration, outsourced functional support, credit and collections, audit services, and systems and controls analysis and documentation. Our FA segment provides service to clients in a variety of industries with a strong footprint in the financial services, healthcare and government sectors. Revenues for our FA segment increased 3.6% to $337.6 million for the year ended December 31, 2016 as compared to $325.9 million for the year ended December 31, 2015. The average bill rate for our FA segment for 2016 was approximately $32 per hour. A September 2016 report published by SIA stated that finance and accounting staffing is expected to experience growth of 6% in 2017.

GS

Our GS segment provides staffing services and solutions to the Federal Government as both a prime contractor and a subcontractor in the fields of information technology and finance and accounting. The GS contracts are concentrated among customers that have historically been less likely to be impacted by sequestration threats and budget constraints, such as the U.S. Department of Veteran Affairs. GS offers integrated business solutions to its customers in areas such as: information technology, healthcare informatics, data and knowledge management, research and development, audit readiness, financial management and accounting, among other areas. Revenues for our GS segment increased 1.3% to $98.6 million for the year ended December 31, 2016 as compared to $97.4 million for the year ended December 31, 2015. Our GS segment also includes a product-based business specialized in manufacturing and delivering trauma-training manikins, which accounted for approximately 16% of its total revenues in 2016. Substantially all GS services are supplied to the Federal Government through field offices located in the Washington, D.C. metropolitan area, San Antonio, Texas and Austin, Texas.

Types of Staffing Services

We target clients and recruits for both Flex and Direct Hire services, which contributes to our objective of providing integrated solutions for all of our clients' human capital needs.

Flex

For each of the years ended December 31, 2016, 2015 and 2014, Flex represented approximately 96% of total Kforce revenues, respectively. We provide our clients with qualified individuals ("consultants") on a temporary basis when it is determined that they have the appropriate skills and experience and are the right match for our clients. We recruit consultants from the job boards, Kforce.com, social media networks and passive candidate marketing, where we identify individuals who are currently employed and not actively seeking another position. These consultants can be directly employed by Kforce, qualified independent contractors or foreign nationals sponsored by Kforce. Our success is dependent upon our internal employees' ("associates") ability to: (1) acknowledge, understand and participate in creating solutions for our clients' needs; (2) determine and understand the capabilities of the consultants being recruited; and (3) deliver and manage the client-consultant relationship to the satisfaction of both our clients and our consultants. We believe proper execution by our associates and our consultants directly impacts the longevity of the assignments, increases the likelihood of being able to generate repeat business with our clients and fosters a better experience for our consultants, which has a direct correlation to their redeployment.

Flex revenues are driven by the number of total hours billed and pre-established bill rates. Flex gross profit is determined by deducting consultant pay, benefits and other related costs from Flex revenues. Associate commissions, related taxes and other compensation and benefits, as well as field management compensation are included in selling, general and administrative expenses ("SG&A"), along with other customary costs such as administrative and corporate compensation. The Flex business model involves attempting to maximize the number of billable consultant hours and bill rates, while managing consultant pay rates and benefit costs, as well as compensation and benefits for our core associates. Flex revenues also includes revenues for our GS segment. These revenues involve providing longer-term contract services to the customer primarily on a time-and-materials basis.

Direct Hire

Our Direct Hire business is a significantly smaller, yet important, part of our business that involves locating qualified individuals ("candidates") for permanent placement with our clients. We primarily perform these searches on a contingency basis; thus, fees are only earned if the candidates are ultimately hired by our clients. The typical fee structure is based upon a percentage of the placed individual's annual compensation in their first year of employment, which is known or can be estimated at the time of placement. We recruit candidates using methods that are consistent with Flex consultants. Also, there are occasions where consultants are initially assigned to a client on a temporary basis and later are converted to a permanent placement, for which we may also receive a fee (referred to as "conversion revenue").

Direct Hire revenues are driven by placements made and the resulting fees billed and are recognized net of an allowance for "fallouts," which occur when candidates do not complete the applicable contingency period. Although the contingency period can vary by contract, it is typically 90 days or less. There are no consultant payroll costs associated with Direct Hire placements, thus, all Direct Hire revenues increase gross profit by the full amount of the fee. Direct Hire associate commissions, compensation and benefits are included in SG&A.

Industry Overview

The specialty staffing industry is made up of thousands of companies, most of which are small local firms providing limited service offerings to a relatively small local client base. Based on a report published by SIA in 2016 regarding the largest staffing firms in the United States, we estimate Kforce is one of the 10 largest publicly-traded specialty staffing firms in the U.S. According to a report published by the SIA in June 2016, 134 companies reported at least $100 million in U.S. staffing revenues in 2015 and these companies represented an estimated 56.8% of the total market.

Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which continued to be positive during 2016, based on data published by the Bureau of Labor Statistics ("BLS") and SIA. The penetration rate (the percentage of temporary staffing to total employment) in December 2016 was at 2.04%, a slight decline from the December 2015 high of 2.06%. While the health of the macro-employment picture was uncertain at times during 2016, it generally continuously improved, with the unemployment rate at 4.7% as of December 2016, and non-farm payroll expanding an average of approximately 180,000 jobs per month in 2016. Also, the college-level unemployment rate, which we believe serves as a proxy for professional employment and therefore aligns with the candidate and consultant population that Kforce serves, was at 2.5% in December 2016. Further, we believe that the unemployment rate in the specialties we serve, especially in certain technology skill sets, is lower than the published averages, which we believe speaks to the demand environment in which we are operating. Management believes that the tepid growth in the overall U.S. economy seen through much of 2016, the recent change in administration, and the increasing costs and government regulation of employment may be driving a secular shift to an increased use of temporary staff as a percentage of total workforce as employers may be reluctant to increase permanent hiring. If the penetration rate of temporary staffing experiences growth in the coming months and years, we believe our Flex revenues may grow even in a relatively modest growth macro-economic environment. Kforce remains optimistic about the growth prospects of the temporary staffing industry, the penetration rate, and in particular, our revenue portfolio; however, the economic environment includes considerable uncertainty and volatility and therefore no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular.

According to an industry forecast published by SIA in September 2016, the U.S. temporary staffing industry generated estimated revenues of $103.7 billion in 2013, $109.2 billion in 2014 and $115.7 billion in 2015, and has projected revenues of $120.0 billion in 2016 and $124.8 billion in 2017. Based on projected revenues of $120.0 billion for the U.S. temporary staffing industry, this would put the Firm's overall market share at approximately 1%. Therefore, our business strategies are sharply focused around expanding our share of the U.S. temporary staffing market and further penetrating our existing clients' staffing needs.

Business Strategies

Our primary goals are to enhance long-term shareholder value by achieving above-market revenue growth as compared to our peers in the segments in which we are focused, making prudent investments to enhance our operating model and efficiency and generating improved levels of operating profitability. We believe the following strategies will help us achieve our goals.

Invest in Revenue-Generating Talent. We continue to focus on providing our talent with the necessary tools to be more effective and efficient in performing their roles and to better evaluate our business opportunities and allow us to elevate the value we are bringing to our clients and candidates. This includes enhancing our sales methodology and training our sales associates to engage in more strategic conversations and shape solutions with our clients. We completed the initial rollout of our sales transformation initiative in the fourth quarter of 2016 and will continue to make progress on ensuring it is fully engrained within the Firm. We also expect to enhance our delivery methodology and training of our delivery associates. This includes our national delivery team, which focuses on quality and speed of delivery services to our clients with demands for high volume staffing. Additionally, the Firm expects to continue to selectively hire and allocate revenue-generating talent in markets, products, industries and clients that present us with the greatest opportunity for profitable revenue growth.

Enhanced Customer Focus. During 2016, Kforce consolidated our sales and delivery organization under a single leader, our Chief Operations Officer, and certain revenue-enabling support functions were realigned in an effort to allow us to more effectively compete for business, particularly with our largest customers. We believe the new alignment, coupled with the rebalancing of our sales and delivery talent through a disproportionate investment in sales talent, will enable us to allocate additional sales talent to provide exceptional service to our largest customers with whom we have long-term relationships. In order to achieve greater penetration within each of our largest accounts, we work to foster an understanding of our clients' human capital needs holistically while building a consultative partnership rather than a transactional client relationship.

We strive to differentiate ourselves by working closely with our clients to understand their needs and maximize their return on human capital. Finding the right match for both our clients and consultants is our ultimate priority. The placement of our highly skilled consultants requires operational and technical skill to effectively recruit and evaluate personnel, match them to client needs, and manage the resulting relationships. We believe the proper placements of consultants with the right clients will serve to balance the desire for optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, consultants and the Firm. In addition, Kforce's ability to offer flexible staffing solutions, coupled with our permanent placement capability, offers the client a broad spectrum of specialty staffing services.

Leverage Technology Infrastructure. We have made significant progress toward a rollout of our new customer relationship management system which incorporates our enhanced sales methodology to reinforce execution. This rollout is a major piece of a multi-year effort to replace and upgrade our technology tools to equip our talented associates with significantly improved capabilities to deliver exceptional service to our clients, enhance productivity and accelerate associate ramp-up. As we look into the future, we expect to continue improving our technology infrastructure and surrounding processes to generate additional operating leverage as we grow, enhance flexibility in meeting our clients' increasing needs and improve the effectiveness of our associates.

Retain our Great People. A significant focus of Kforce is on the retention of our tenured and top performing associates. We ended fiscal 2016 with a strong, streamlined management, revenue-generating, and revenue-enabling teams, which we believe will continue to enhance our ability to achieve future profitable growth.

We believe our consultants are a significant component in delivering value to our clients. We are focused on efficient and effective consultant care processes, such as onboarding, frequent and ongoing communication and programs to redeploy our consultants in a timely fashion. We strive to increase the tenure and loyalty of our consultants and be their "Employer of Choice," thus enabling us to deliver the highest quality talent to our clients. Overall, Kforce's consultant satisfaction Net Promoter Score is 61%; additionally, 71% of consultants rated us a 9 or a 10 out of 10.

Enhance Shareholder Value. Kforce is committed to continue to invest in our business to generate long-term shareholder value while appropriately balancing the return of capital to our shareholders. In 2016, the Firm continued to repurchase a significant amount of stock under the Board-authorized program and completed four quarterly dividends. Kforce expects to focus on reducing expenses and anticipates continuing with our share repurchase program and dividends in 2017.

This section is intended to help the reader understand Kforce, our operations, and our present business environment. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying notes thereto contained in this Annual Report as well as Business Overview for an overview of our operations and business environment.

This overview summarizes the MD&A, which includes the following sections:

- *Executive Summary*—an executive summary of our results of operations for 2016.
- *Results of Operations*—an analysis of Kforce's consolidated results of operations for the three years presented in its consolidated financial statements. In order to assist the reader in understanding our business as a whole, certain metrics are presented for each of our segments.
- *Liquidity and Capital Resources*—an analysis of cash flows, off-balance sheet arrangements, stock repurchases and contractual obligations and commitments and the impact of changes in interest rates on our business.
- *Critical Accounting Estimates*—a discussion of the accounting estimates that are most critical to aid in fully understanding and evaluating our reported financial results and that require management's most difficult, subjective or complex judgments.
- *New Accounting Standards*—a discussion of recently issued accounting standards and their potential impact on our consolidated financial statements.

Effective August 3, 2014, Kforce divested its HIM segment through a sale of all of the issued and outstanding stock of KHI. The results presented in the accompanying Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2014 include activity relating to HIM as a discontinued operation. Except when specifically noted, our discussions below exclude any activity related to HIM, which are addressed separately in the discussion of Income from Discontinued Operations, Net of Income Taxes.

EXECUTIVE SUMMARY

The following is an executive summary of what Kforce believes are 2016 highlights, which should be considered in the context of the additional discussions herein and in conjunction with the consolidated financial statements and notes thereto.

- Net service revenues remained stable at $1.32 billion in 2016 and 2015. Net service revenues decreased 1.4% for Tech and increased 3.6% and 1.3% for FA and GS, respectively.
- Flex revenues increased 0.3% in 2016 as compared to 2015. Flex revenues decreased 1.2% for Tech and increased 4.4% and 1.3% for FA and GS, respectively.
- Direct Hire revenues decreased 6.8% to $50.4 million in 2016 from $54.1 million in 2015.
- Flex gross profit margin decreased 30 basis points to 28.2% in 2016 from 28.5% in 2015. Flex gross profit margin decreased 10 basis points for Tech, 30 basis points for FA and 170 basis points for GS. These margin decreases were primarily a result of higher benefit costs in each of our segments, lower margins on some of GS recompete wins and spread compression in Tech Flex due to an increase in revenue concentration within our large client portfolio where certain of these clients have, in many cases, narrowed the number of vendor partners that they are looking to do business with and are leveraging volume-based rebates in exchange for this increased concentration of business.
- SG&A expenses as a percentage of revenues for the year ended December 31, 2016 increased to 25.9% from 25.0% in 2015. The 90 basis point increase was primarily driven by approximately $6.0 million, or 50 basis points, in severance costs that were recorded during 2016 associated with realignment activities focused on further streamlining our organization and $2.2 million, or 20 basis points, in costs associated with our sales transformation activities. In addition, we have made targeted investments in information technology as well as our revenue-generating talent during 2016, which has negatively impacted SG&A as a percentage of revenue.
- Net income for the year ended December 31, 2016 decreased 23.5% to $32.8 million from $42.8 million in 2015 primarily driven by the aforementioned $6.0 million in severance costs ($3.5 million after-tax), $2.2 million in costs associated with the investment in refining our sales methodology, messaging and process ($1.2 million after-tax), and reduction in our gross profit of $5.6 million ($3.3 million after-tax) as well as certain tax adjustments of $1.7 million during 2016.
- Diluted earnings per share for the year ended December 31, 2016 decreased to $1.25 from $1.52 per share in 2015 primarily driven by the aforementioned factors noted in the net income description above.
- During 2016, Kforce repurchased 2.3 million shares of common stock on the open market at a total cost of approximately $44.0 million.
- The Firm declared and paid dividends totaling $0.48 per share during the year ended December 31, 2016, resulting in a total cash payout of $12.4 million.
- The total amount outstanding under the credit facility increased $31.0 million to $111.5 million as of December 31, 2016 as compared to $80.5 million as of December 31, 2015. This increase was primarily driven by the return of capital to our shareholders in the form of dividends and common stock repurchases, which aggregated $56.4 million, but was also impacted by lower than anticipated operating cash flows in the fourth quarter as a result of the transition of certain back office processes from Manila to Tampa.

RESULTS OF OPERATIONS

Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for additional U.S. workers and, conversely, an economic slowdown results in a contraction in demand for additional U.S. workers. From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which continued to be positive during 2016, based on data published by the Bureau of Labor Statistics ("BLS") and SIA. The penetration rate (the percentage of temporary staffing to total employment) in December 2016 was at 2.04%, a slight decline from the December 2015 high of 2.06%. While the health of the macro-employment picture was uncertain at times during 2016, it generally continuously improved, with the unemployment rate at 4.7% as of December 2016, and non-farm payroll expanding an average of approximately 180,000 jobs per month in 2016. Also, the college-level unemployment rate, which we believe serves as a proxy for professional employment and therefore aligns with the candidate and consultant population that Kforce serves, was at 2.5% in December 2016. Further, we believe that the unemployment rate in the specialties we serve, especially in certain technology skill sets, is lower than the published averages, which we believe speaks to the demand environment in which we are operating. Management believes that the tepid growth in the overall U.S. economy seen through much of 2016, the recent change in administration, and the increasing costs and government regulation of employment may be driving a secular shift to an increased use of temporary staff as a percentage of total workforce as employers may be reluctant to increase permanent hiring. If the penetration rate of temporary staffing experiences growth in the coming months and years, we believe our Flex revenues may grow even in a relatively modest growth macro-economic environment. Kforce remains optimistic about the growth prospects of the temporary staffing industry, the penetration rate, and in particular, our revenue portfolio; however, the economic environment includes considerable uncertainty and volatility and therefore no reliable predictions can be made about the general economy, the staffing industry as a whole, or specialty staffing in particular.

We continued to evolve and make progress on our strategic initiatives including: (1) enhancing our sales methodology and training of our sales associates to engage in more strategic conversations and shape solutions with our clients; (2) balancing investment in our revenue-generating talent appropriately across our service offerings and allocating the talent toward markets, products, industries and clients that we believe present Kforce with the greatest opportunity for profitable revenue growth; (3) consolidating our sales and delivery organization and certain revenue-enabling support functions in an effort to allow us to more effectively compete for business, particularly with our largest customers; and (4) upgrading existing technology systems and implementing new technologies that allow us to more effectively and efficiently serve our clients, candidates and consultants and improve the productivity and scalability of our organization.

We believe that the proper alignment and balance of our combined revenue-generating talent and revenue-enabling talent are keys to our future growth and profitability. We also believe that our portfolio of service offerings, which are almost exclusively in the U.S. and are focused in Tech and FA (which we anticipate to be areas of expected growth), are a key contributor to our long-term financial stability.

Net Service Revenues. The following table presents, as a percentage of net service revenues, certain items in our Consolidated Statements of Operations and Comprehensive Income for the years ended:

December 31,	**2016**	2015	2014
Revenues by Segment:			
Tech	**66.9%**	67.9%	69.2%
FA	**25.6**	24.7	22.7
GS	**7.5**	7.4	8.1
Net service revenues	**100.0%**	100.0%	100.0%
Revenues by Type:			
Flex	**96.2%**	95.9%	96.2%
Direct Hire	**3.8**	4.1	3.8
Net service revenues	**100.0%**	100.0%	100.0%
Gross profit	**31.0%**	31.4%	30.8%
Selling, general and administrative expenses	**25.9%**	25.0%	25.9%
Depreciation and amortization	**0.7%**	0.7%	0.8%
Income from continuing operations, before income taxes	**4.2%**	5.4%	3.9%
Income from continuing operations	**2.5%**	3.2%	2.4%
Net income	**2.5%**	3.2%	7.5%

The following table presents net service revenues for Flex and Direct Hire by segment and percentage change from the prior period for the years ended December 31 (in thousands):

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Tech					
Flex	**$ 863,434**	**(1.2)%**	$ 873,609	6.1%	$ 823,311
Direct Hire	**20,043**	**(10.3)%**	22,333	16.6%	19,158
Total Tech	**$ 883,477**	**(1.4)%**	$ 895,942	6.3%	$ 842,469
FA					
Flex	**$ 307,245**	**4.4%**	$ 294,186	18.0%	$ 249,274
Direct Hire	**30,356**	**(4.4)%**	31,738	15.3%	27,537
Total FA	**$ 337,601**	**3.6%**	$ 325,924	17.7%	$ 276,811
GS					
Flex	**$ 98,628**	**1.3%**	$ 97,372	(0.7)%	$ 98,051
Total GS	**$ 98,628**	**1.3%**	$ 97,372	(0.7)%	$ 98,051
Total Flex	**$1,269,307**	**0.3%**	$1,265,167	8.1%	$1,170,636
Total Direct Hire	**50,399**	**(6.8)%**	54,071	15.8%	46,695
Total Net Service Revenues	**$1,319,706**	**0.0%**	$1,319,238	8.4%	$1,217,331

Certain quarterly revenue trends are referred to in discussing annual comparisons. Our quarterly operating results are affected by the number of billing days in a quarter, which is provided in the table below. The following 2016 quarterly information is presented for informational purposes only (in thousands, except Billing Days).

	Three Months Ended							
	December 31		September 30		June 30		March 31	
	Revenues	Year-Over-Year Growth Rates Per Billng Day	Revenues	Year-Over-Year Growth Rates Per Billng Day	Revenues	Year-Over-Year Growth Rates Per Billng Day	Revenues	Year-Over-Year Growth Rates Per Billng Day
Billing Days		**61**		**64**		**64**		**64**
Flex								
Tech	**$212,437**	**1.4%**	**$220,376**	**(2.7)%**	**$219,412**	**(2.9)%**	**$211,209**	**(0.3)%**
FA	**78,880**	**2.1%**	**76,290**	**(0.5)%**	**76,769**	**5.5%**	**75,306**	**12.0%**
GS	**23,397**	**4.0%**	**26,818**	**10.1%**	**25,292**	**4.2%**	**23,121**	**(12.1)%**
Total Flex	**$314,714**	**1.8%**	**$323,484**	**(1.2)%**	**$321,473**	**(0.4)%**	**$309,636**	**1.4%**
Direct Hire								
Tech	**$ 4,370**	**(13.1)%**	**$ 5,148**	**(10.2)%**	**$ 5,146**	**(18.2)%**	**$ 5,379**	**1.8%**
FA	**6,914**	**(15.4)%**	**7,828**	**(6.9)%**	**8,428**	**3.4%**	**7,186**	**2.8%**
Total Direct Hire	**$ 11,284**	**(14.5)%**	**$ 12,976**	**(8.2)%**	**$ 13,574**	**(6.0)%**	**$ 12,565**	**2.4%**
Total								
Tech	**$216,807**	**1.1%**	**$225,524**	**(2.8)%**	**$224,558**	**(3.3)%**	**$216,588**	**(0.2)%**
FA	**85,794**	**0.4%**	**84,118**	**(1.2)%**	**85,197**	**5.3%**	**82,492**	**11.1%**
GS	**23,397**	**4.0%**	**26,818**	**10.1%**	**25,292**	**4.2%**	**23,121**	**(12.1)%**
Total	**$325,998**	**1.1%**	**$336,460**	**(1.5)%**	**$335,047**	**(0.7)%**	**$322,201**	**1.5%**

Flex Revenues. The primary drivers of Flex revenues are the number of consultant hours worked, the consultant bill rate per hour and, to a limited extent, the amount of billable expenses incurred by Kforce.

Flex revenues for our largest segment, Tech, decreased 1.2% during the year ended December 31, 2016 as compared to 2015 and increased 6.1% in 2015 from 2014. Our year-over-year decrease in 2016 was due to a decline experienced in connection with several large clients after certain significant organizational changes occurred within a number of these clients in mid-2015 causing them to decrease their spending with the Firm (we had experienced revenue growth with these large clients in the first half of 2015). Despite this overall decrease, we experienced a reacceleration of year-over-year growth beginning in Q4 2016 within our overall Tech Flex business on a billing day basis as well as our Top 25 client portfolio, which suggests that the impact related to the shift in spend with certain large clients was temporary in nature. We believe that broad-based drivers to the demand in technology staffing such as cloud-computing, data analytics, mobility, e-commerce, machine learning and cybersecurity will continue as companies are becoming increasingly dependent upon technology investments to support business strategies and sustain relevancy in today's rapidly changing marketplace. We believe we are well positioned in this space. We expect Tech Flex revenues to grow year-over-year in 2017 due to the market strength, the opportunities we see with our clients and the investments in revenue-generating resources that we intend to allocate to growing priority client accounts.

Our FA segment experienced an increase in Flex revenues of 4.4% during the year ended December 31, 2016 as compared to 2015 and increased 18.0% in 2015 from 2014. Due to the high year-over-year growth rate in FA Flex during 2015 we expected our 2016 year-over-year growth rate to slow against this challenging comparison. We have continued to diversify our FA service offerings outside of what may be viewed as more traditional finance and accounting roles. The opportunities we have seen include larger volume projects in centralized functions such as benefits and other service and administrative functions. The Firm believes the FA segment will continue to achieve year-over-year growth in 2017.

Our GS segment experienced an increase in net service revenues of 1.3% during the year ended December 31, 2016 as compared to 2015 and decreased 0.7% in 2015 from 2014. The 2016 year-over-year growth was driven by growth in service revenues as well as strength in our product-based business. While the business continues to operate in a challenging and evolving procurement and contracting environment, the Firm believes the GS segment will grow in 2017 primarily as a result of the anticipated subcontractor and, to a lesser extent, prime contractor opportunities under the T4 Next Generation prime contract, which was awarded to GS in March 2016.

The following table presents the key drivers for the change in Flex revenues for our Tech and FA segments over the prior period for the years ended December 31 (in thousands):

	2016		2015	
	Tech	**FA**	Tech	FA
Volume	**$(10,115)**	**$15,198**	$58,491	$42,628
Bill rate	**896**	**(2,055)**	(7,684)	2,311
Billable expenses	**(956)**	**(84)**	(509)	(27)
Total	**$(10,175)**	**$13,059**	$50,298	$44,912

The following table presents total Flex hours for our Tech and FA segments and percentage change over the prior period for the years ended December 31 (in thousands):

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Tech	**12,735**	**(1.2)%**	12,885	7.2%	12,024
FA	**9,474**	**5.2%**	9,008	17.1%	7,691
Total hours	**22,209**	**1.4%**	21,893	11.0%	19,715

As the GS segment primarily provides integrated business solutions as compared to staffing services, Flex hours are not presented above.

Direct Hire Revenues. The primary drivers of Direct Hire revenues are the number of placements and the fee for these placements. Direct Hire revenues also include conversion revenues. Our GS segment does not make permanent placements.

Direct Hire revenues decreased 6.8% during the year ended December 31, 2016 as compared to 2015. Direct Hire revenues increased 15.8% during the year ended December 31, 2015 as compared to 2014.

The following table presents the key drivers for the change in Direct Hire revenues over the prior period for the years ended December 31 (in thousands):

	2016	2015
Volume	**$(2,476)**	$6,109
Placement fee	**(1,196)**	1,267
Total	**$(3,672)**	$7,376

The following table presents total placements for our Tech and FA segments and percentage change over the prior period for the years ended December 31:

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Tech	**1,191**	**(14.6)%**	1,395	16.9%	1,193
FA	**2,531**	**1.0%**	2,505	11.0%	2,256
Total placements	**3,722**	**(4.6)%**	3,900	13.1%	3,449

The following table presents the average fee per placement for our Tech and FA segments and percentage change over the prior period for the years ended December 31:

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Tech	**$16,836**	**5.1%**	$16,014	(0.3)%	$16,062
FA	**11,994**	**(5.3)%**	12,668	3.8%	12,205
Total average placement fee	**$13,543**	**(2.3)%**	$13,864	2.4%	$13,539

Gross Profit. Gross profit on Flex billings is determined by deducting the direct cost of services (primarily consultant payroll wages, payroll taxes, payroll-related insurance and certain fringe benefits, as well as subcontractor costs) from net Flex service revenues. In addition, there are no consultant payroll costs associated with Direct Hire placements, thus, all Direct Hire revenues increase gross profit by the full amount of the fee.

The following table presents the gross profit percentage (gross profit as a percentage of revenues) for each segment and percentage change over the prior period for the years ended December 31:

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Tech	**29.0%**	**(0.7)%**	29.2%	1.0%	28.9%
FA	**35.7%**	**(2.2)%**	36.5%	—%	36.5%
GS	**32.6%**	**(5.0)%**	34.3%	10.6%	31.0%
Total gross profit percentage	**31.0%**	**(1.3)%**	31.4%	1.9%	30.8%

The change in gross profit percentage for 2016 as compared to 2015 and 2015 as compared to 2014, is primarily the result of fluctuations in the concentration of Direct Hire revenues, which has no associated direct costs, as well as changes in our Flex gross profit.

Kforce also monitors the Flex gross profit percentage (Flex gross profit as a percentage of Flex revenues). This provides management with helpful insight into the other drivers of total gross profit percentage such as changes in volume evidenced by changes in hours billed for Flex and changes in the spread between the bill rate and pay rate for Flex. As noted above, our GS segment does not make permanent placements; as a result, its Flex gross profit percentage is the same as its gross profit percentage.

The following table presents the Flex gross profit percentage for each segment and percentage change over the prior period for the years ended December 31:

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Tech	**27.3%**	**(0.4)%**	27.4%	0.7%	27.2%
FA	**29.4%**	**(1.0)%**	29.7%	0.7%	29.5%
GS	**32.6%**	**(5.0)%**	34.3%	10.6%	31.0%
Total Flex gross profit percentage	**28.2%**	**(1.1)%**	28.5%	1.8%	28.0%

The decrease in Flex gross profit percentage of 30 basis points in 2016 from 2015 was due primarily to an increase in benefit costs in each of our segments. Additionally, our GS segment realized lower margins on some of its recompete wins and a lower mix of higher margin business. Furthermore, during 2016 we experienced an increase in the revenue concentration within our large client portfolio in Tech Flex, which resulted in a reduction in the Flex gross profit percentage, and spread compression within certain of these clients that have, in many cases, narrowed the number of vendor partners that they are looking to do business with and are leveraging volume-based rebates in exchange for this increased concentration of business. A continued focus for Kforce is optimizing the spread between bill rates and pay rates by providing our associates with tools, economic knowledge and defined programs to drive improvement in the effectiveness of our pricing strategy around the staffing services we provide and the clients that we serve.

The increase in Flex gross profit percentage of 50 basis points in 2015 from 2014 was due primarily to an increase in the spread between our bill rates and pay rates in the FA segment, improved profitability from our GS segment primarily as a result of growth in its product business which carries a higher margin profile, and a more favorable payroll tax environment as compared to 2014.

The following table presents the key drivers for the change in Flex gross profit over the prior period for the years ended December 31 (in thousands):

	2016	2015
Volume	**$ 1,178**	$26,477
Rate	**(3,121)**	5,680
Total	**$(1,943)**	$32,157

SG&A Expenses. For the years ended December 31, 2016, 2015 and 2014, total commissions, compensation, payroll taxes, and benefit costs as a percentage of SG&A represented 84.0%, 84.2%, and 84.8%, respectively. Commissions, certain revenue-generating bonuses and related payroll taxes and benefit costs are variable costs driven primarily by revenue and gross profit levels, and associate performance. Therefore, as gross profit levels change, these expenses would also generally be anticipated to change, but remain relatively consistent as a percentage of revenues.

The following table presents these components of SG&A along with an "other" caption, which includes bad debt expense, lease expense, professional fees, travel, telephone, computer and certain other expenses, as an absolute amount and as a percentage of total net service revenues for the years ended December 31 (in thousands):

	2016	**% of Revenues**	2015	% of Revenues	2014	% of Revenues
Compensation, commissions, payroll taxes and benefits costs	**$286,715**	**21.8%**	$278,207	21.1%	$267,471	22.0%
Other	**54,481**	**4.1%**	52,209	3.9%	47,867	3.9%
Total SG&A	**$341,196**	**25.9%**	$330,416	25.0%	$315,338	25.9%

SG&A as a percentage of net service revenues increased 90 basis points in 2016 compared to 2015. This increase was was primarily driven by approximately $6.0 million, or 50 basis points, in severance costs that were recorded during 2016 associated with realignment activities focused on further streamlining our organization and $2.2 million, or 20 basis points, in costs associated with our sales transformation activities. In addition, we have made targeted investments in information technology as well as our revenue-generating talent during 2016, which has negatively impacted SG&A as a percentage of revenue.

SG&A as a percentage of net service revenues decreased 90 basis points in 2015 compared to 2014. This was primarily a result of a reduction in salaries and wages, benefits costs and a decrease in commissions, driven by changes made to our compensation plans to drive improvement in associate productivity.

Depreciation and Amortization. The following table presents depreciation and amortization expense and percentage change over the prior period by major category for the years ended December 31 (in thousands):

	2016	**Increase (Decrease)**	2015	Increase (Decrease)	2014
Fixed asset depreciation (1)	**$6,660**	**(1.2)%**	$6,738	6.2%	$6,345
Capitalized software amortization	**1,448**	**(37.5)%**	2,318	(20.2)%	2,904
Intangible asset amortization	**593**	**(23.5)%**	775	20.2%	645
Total depreciation and amortization	**$8,701**	**(11.5)%**	$9,831	(0.6)%	$9,894

(1) Fixed asset depreciation includes amortization of capital leases.

Other Expense, Net. Other expense, net was $2.6 million in 2016, $2.2 million in 2015, and $1.4 million in 2014, and consists primarily of interest expense related to outstanding borrowings under our credit facility.

Income Tax Expense. Income tax expense as a percentage of income before income taxes (our "effective rate") for the year ended December 31, 2016 was 41.4%. Kforce's effective rate during 2016 was negatively impacted by certain one-time non-cash adjustments. For the year ended December 31, 2015, our effective rate was 40.3%. The 2015 effective rate was unfavorably impacted by a change in the overall mix of income in the various state jurisdictions and the increase in particular uncertain tax positions. For the year ended December 31, 2014, income tax expense as a percentage of income from continuing operations before income taxes was 38.7%.

Income from Discontinued Operations, Net of Income Taxes. Discontinued operations for the year ended December 31, 2014 include the consolidated income and expenses for HIM. During the three months ended September 30, 2014, Kforce completed the sale of HIM resulting in a pre-tax gain of $94.3 million. Included in the determination of the pre-tax gain is approximately $4.9 million of goodwill for HIM and transaction expenses totaling approximately $11.0 million, which primarily included legal fees, stock-based compensation related to acceleration of restricted stock due to change in control provisions, commissions and transaction bonuses. Income tax expense as a percentage of income from discontinued operations, before income taxes, for the year ended December 31, 2014 was 40.6%.

NON-GAAP MEASURES

Adjusted EBITDA. "Adjusted EBITDA," a non-GAAP financial measure, which is defined by Kforce as net income before income from discontinued operations, net of income taxes, depreciation and amortization, stock-based compensation expense, interest expense, net and income tax expense, and is based on the definition in our credit facility and is a key metric in our covenant calculations, as described in Note 8 - "Credit Facility" in the Notes to Consolidated Financial Statements, included in this Annual Report. Adjusted EBITDA should not be considered a measure of financial performance under GAAP. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our past and future financial performance, and this presentation should not be construed as an inference by us that our future results will be unaffected by those items excluded from Adjusted EBITDA. Adjusted EBITDA is a key measure used by management to assess our operations including our ability to generate cash flows and our ability to repay our debt obligations and management believes it provides a good metric of our core profitability in comparing our performance to our competitors. Consequently, management believes it is useful information to investors. The measure should not be considered in isolation or as an alternative to net income, cash flows or other financial statement information presented in the consolidated financial statements as indicators of financial performance or liquidity. The measure is not determined in accordance with GAAP and is thus susceptible to varying calculations. Also, Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

In addition, although we excluded amortization of stock-based compensation expense (which we expect to continue to incur in the future) because it is a non-cash expense, the associated stock issued may result in an increase in our outstanding shares of stock, which may result in the dilution of our stockholder ownership interest. We suggest that you evaluate these items and the potential risks of excluding such items when analyzing our financial position.

The following table presents Adjusted EBITDA and includes a reconciliation of Adjusted EBITDA to net income (in thousands):

Years Ended December 31,	**2016**	2015	2014
Net income	**$32,773**	$42,824	$90,915
Income from discontinued operations, net of income taxes	**—**	—	61,517
Income from continuing operations	**$32,773**	$42,824	$29,398
Depreciation and amortization	**8,796**	9,831	9,894
Stock-based compensation expense	**6,705**	5,819	2,969
Interest expense, net	**2,596**	1,960	1,396
Income tax expense	**23,182**	28,848	18,559
Adjusted EBITDA	**$74,052**	$89,282	$62,216

Free Cash Flow. "Free Cash Flow", a non-GAAP financial measure, is defined by Kforce as net cash provided by (used in) operating activities determined in accordance with GAAP, less capital expenditures. Management believes this provides an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows and is useful information to investors as it provides a measure of the amount of cash generated from the business that can be used for strategic opportunities including investing in our business, making acquisitions, repurchasing common stock or paying dividends. Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. Therefore, we believe it is important to view free cash flow as a complement to our Consolidated Statements of Cash Flows.

The following table presents Free Cash Flow (in thousands):

Years Ended December 31,	**2016**	2015	2014
Net income	**$ 32,773**	$ 42,824	$ 90,915
Gain on sale of discontinued operations	**—**	—	(64,600)
Non-cash provisions and other	**20,717**	21,602	15,376
Changes in operating assets/liabilities	**(14,043)**	5,754	(67,273)
Net cash provided by (used in) operating activities	**39,447**	70,180	(25,582)
Capital expenditures	**(12,420)**	(8,328)	(6,010)
Free cash flow	**27,027**	61,852	(31,592)
Proceeds from disposition of business	**—**	—	117,887
Change in debt	**31,075**	(12,861)	30,726
Repurchases of common stock	**(46,013)**	(38,471)	(101,771)
Cash dividend	**(12,447)**	(12,545)	(12,776)
Other	**343**	2,284	(2,111)
Change in cash	**$ (15)**	$ 259	$ 363

LIQUIDITY AND CAPITAL RESOURCES

To meet our capital and liquidity requirements, we primarily rely on operating cash flow, as well as borrowings under our existing credit facility. At December 31, 2016, Kforce had $140.2 million in working capital compared to $126.8 million at December 31, 2015.

The accompanying Consolidated Statements of Cash Flows for each of the years ended December 31, 2016, 2015 and 2014 in this Annual Report provide a more detailed description of our cash flows. Currently, Kforce is principally focused on achieving the appropriate balance in the following areas of cash flow: (1) achieving positive cash flow from operating activities; (2) returning capital to our shareholders through our quarterly dividends and common stock repurchase program; (3) maintaining an appropriate outstanding balance on our credit facility; (4) investing in our infrastructure to allow sustainable growth via capital expenditures; and (5) having sufficient liquidity for the possibility of completing an acquisition or for an unexpected necessary expense.

We believe that existing cash and cash equivalents, cash flow from operations, and available borrowings under our credit facility will be adequate to meet the capital expenditure and working capital requirements of our operations for at least the next 12 months. However, a material deterioration in the economic environment or market conditions, among other things, could negatively impact operating results and liquidity, as well as the ability of our lenders to fund borrowings.

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

The following table presents a summary of our net cash flows from operating, investing and financing activities (in thousands):

Years Ended December 31,	**2016**	2015	2014
Cash provided by (used in):			
Operating activities	**$ 39,447**	$ 70,180	$ (25,582)
Investing activities	**(12,420)**	(8,364)	110,535
Financing activities	**(27,042)**	(61,557)	(84,590)
Net (decrease) increase in cash and cash equivalents	**$ (15)**	$ 259	$ 363

Discontinued Operations

As was previously discussed, Kforce divested of HIM during 2014. The accompanying Consolidated Statements of Cash Flows have been presented on a combined basis (continuing operations and discontinued operations) for the year ended December 31, 2014. Cash flows provided by discontinued operations for all prior periods were provided by operating activities and were not material to the capital resources of Kforce. In addition, the absence of cash flows from discontinued operations is not expected to have a significant effect on the future liquidity, financial position, or capital resources of Kforce.

Operating Activities

Our largest source of operating cash flows is the collection of trade receivables and our largest use of operating cash flows is the payment of our employee and consultant populations' compensation, which includes base salary, commissions and bonuses. When comparing cash flows from operating activities, the decrease in cash provided by operating activities during the year ended December 31, 2016 as compared to 2015 is primarily a result of lower earnings due to large cash usages related to severance costs associated with realignment activities focused on further streamlining our organization, costs associated with the investment in refining our sales methodology, and investments in information technology and our revenue-generating talent, as well as transitioning certain back office functions from our Manila location to our Tampa headquarters in the fourth quarter, which impacted the timing in collections of accounts receivable. The increase in cash provided by operating activities during the year ended December 31, 2015 as compared to 2014 is primarily a result of improved timing of collections of accounts receivable as well as growth in our profitability.

Investing Activities

Capital expenditures for the years ended December 31, 2016, 2015 and 2014, which exclude equipment acquired under capital leases, were $12.4 million, $8.3 million and $6.0 million, respectively. Proceeds from the divestiture of HIM were $117.9 million during the year ended December 31, 2014.

We expect to continue selectively investing in our infrastructure in order to support the expected future growth in our business. We believe that we have sufficient cash and availability under the credit facility to make any expected necessary capital expenditures in the foreseeable future. In addition, we continually review our portfolio of businesses and their operations in comparison to our internal strategic and performance objectives. As part of this review, we may acquire other businesses and further invest in, fully divest and/or sell parts of our current businesses.

Financing Activities

The following table presents the cash flow impact of the common stock repurchase activity for the years ended December 31 (in thousands):

	2016(1)	2015(2)	2014
Open market repurchases	**$44,109**	$37,125	$100,196
Repurchase of shares related to tax withholding requirements for vesting of restricted stock	**1,904**	1,346	1,575
	$46,013	$38,471	$101,771

(1) Of the open market common stock repurchases, $1.0 million of the cash paid during the year ended December 31, 2016 related to the settlement of 2015 repurchases.
(2) Of the open market common stock repurchases, $1.4 million of the cash paid during the year ended December 31, 2015 related to the settlement of 2014 repurchases.

During the years ended December 31, 2016, 2015 and 2014, Kforce declared and paid dividends of $12.4 million, or $0.48 per share, $12.5 million, or $0.45 per share, and $12.8 million, or $0.41 per share, respectively. The declaration, payment and amount of future dividends are discretionary and will be subject to determination by Kforce's Board each quarter following its review of, among other things, the Firm's financial performance and its legal ability to pay dividends.

Credit Facility

See Note 8—"Credit Facility" in the Notes to Consolidated Financial Statements, included in this Annual Report for a complete discussion of our credit facility. Our credit facility includes a maximum borrowing capacity of $170.0 million, as well as an accordion option of $50.0 million. The maximum borrowings available to Kforce under the credit facility, absent Kforce exercising all or a portion of the accordion, are limited to: (a) a revolving credit facility of up to $170.0 million and (b) a $15.0 million sub-limit included in the credit facility for letters of credit. As of December 31, 2016 and 2015, $111.5 million and $80.5 million was outstanding under the credit facility, respectively. As of February 22, 2017, $117.2 million was outstanding and $35.7 million was available under the credit facility.

Under the credit facility, Kforce is subject to certain affirmative and negative covenants including, but not limited to, a fixed charge coverage ratio, which is only applicable in the event that the Firm's availability under the credit facility falls below the greater of (a) 10% of the aggregate amount of the commitment of all of the lenders under the credit facility and (b) $11 million. The numerator in the fixed charge coverage ratio is defined pursuant to the credit facility as earnings before interest expense, income taxes, depreciation and amortization, including the amortization of stock-based compensation expense (disclosed as "Adjusted EBITDA"), less cash paid for capital expenditures. The denominator is defined as Kforce's fixed charges such as interest expense, principal payments paid or payable on outstanding debt other than borrowings under the credit facility, income taxes payable, and certain other payments. This financial covenant, if applicable, requires that the numerator be equal to or greater than the denominator.

Our ability to repurchase equity securities could be limited if the Firm's availability is less than the greater of (a) 15.0% of the aggregate amount of the commitment of all lenders under the credit facility or (b) $15.0 million. Also, our ability to make distributions could be limited if the Firm's availability is less than the greater of (a) 12.5% of the aggregate amount of the commitment of all lenders under the credit facility and (b) $20.6 million. Since Kforce had availability under the credit facility of $41.4 million as of December 31, 2016, the fixed charge coverage ratio covenant was not applicable nor was Kforce limited in making distributions or executing repurchases of its equity securities. Kforce believes that it will be able to maintain these minimum availability requirements; however, in the event that Kforce is unable to do so, Kforce could fail the fixed charge coverage ratio, which would constitute an event of default, or we could be limited in our ability to make distributions or repurchase equity securities.

Off-Balance Sheet Arrangements

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2016, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling $3.1 million, and for facility lease deposits totaling $0.4 million. Aside from certain obligations more fully described in the Contractual Obligations and Commitments section below, we do not have any additional off-balance sheet arrangements that have had, or are expected to have, a material effect on our consolidated financial statements.

Stock Repurchases

The following table presents the open market repurchase activity under the Board-authorized common stock repurchase program for the years ended December 31 (in thousands):

	2016 (1)		2015 (2)	
	Shares	**$**	Shares	$
Open market repurchases	**2,291**	**$44,032**	1,487	$36,712

(1) On July 29, 2016, our Board approved an increase in our stock repurchase authorization bringing the then available authorization to $75.0 million.

(2) On July 31, 2015, our Board approved a $60.0 million increase to the then remaining authorized amount under the Board-authorized common stock repurchase program.

As of December 31, 2016 and 2015, $50.7 million and $53.0 million, respectively, remained available for further repurchases under the Board-authorized common stock repurchase program.

Contractual Obligations and Commitments

The following table presents our expected future contractual obligations as of December 31, 2016 (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Credit facility (1)	$111,547	$ —	$111,547	$ —	$ —
Interest payable—credit facility (2)	8,031	2,677	5,354	—	—
Operating lease obligations	22,469	8,699	10,990	2,737	43
Capital lease obligations	2,147	1,110	1,034	3	—
Purchase obligations (3)	14,558	7,436	6,742	380	—
Notes payable (4)	4,000	923	1,893	1,184	—
Interest payable—notes payable (4)	234	97	116	21	—
Liability for unrecognized tax positions (5)	—	—	—	—	—
Deferred compensation plans liability (6)	30,252	2,715	3,275	1,424	22,838
Defined benefit pension plans (7)	18,403	1,089	—	12,450	4,864
Total	$211,641	$24,746	$140,951	$18,199	$27,745

(1) Our credit facility expires December 23, 2019.

(2) Kforce's weighted average interest rate as of December 31, 2016 was 2.40%, which was utilized to forecast the expected future interest rate payments. These payments are inherently uncertain due to interest rate and outstanding borrowings fluctuations that will occur over the remaining term of the credit facility.

(3) Purchase obligations include agreements to purchase goods and services that are enforceable, legally binding, and specify all significant terms.

(4) Our notes payable as of December 31, 2016 are included in the accompanying Consolidated Balance Sheets and classified in Other current liabilities if payable within the next year or in Long-term debt—other if payable after the next year. The interest rate on the notes range from 2.58% to 2.80% and expire between November 2020 and October 2021.

(5) Kforce's liability for unrecognized tax positions as of December 31, 2016 was $1.1 million. This balance has been excluded from the table above due to the significant uncertainty with respect to the timing and amount of settlement, if any.

(6) Kforce maintains various non-qualified deferred compensation plans pursuant to which eligible management and highly-compensated key employees may elect to defer all or part of their compensation to later years. These amounts, which are included in the accompanying Consolidated Balance Sheets and classified as Accounts payable and other accrued liabilities, and Other long-term liabilities, respectively, are payable based upon the elections of the plan participants (e.g. retirement, termination of employment, change-in-control). Amounts payable upon the retirement or termination of employment may become payable during the next five years if covered employees schedule a distribution, retire or terminate during that time.

(7) There is no funding requirement associated with our defined benefit pension plans and, as a result, no contributions have been made to our defined benefit pension plans through the year ended December 31, 2016. Kforce does not currently anticipate funding our defined benefit pension plans during 2017. Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2016, in the table above.

Kforce has no material unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities.

Income Tax Audits

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2016 and 2015, there were no ongoing IRS examinations. Although Kforce has not experienced any material liabilities in the past due to income tax audits, Kforce can make no assurances concerning any future income tax audits.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"). In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenues, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, estimates, assumptions and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 1—"Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in this Annual Report. Management believes that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
ALLOWANCE FOR DOUBTFUL ACCOUNTS, FALLOUTS AND OTHER ACCOUNTS RECEIVABLE RESERVES See Note 1—"Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a complete discussion of our policies related to determining our allowance for doubtful accounts, fallouts and other accounts receivable reserves.	Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, a specific analysis of significant receivable balances that are past due, the concentration of accounts receivable among clients and higher-risk sectors, and the current state of the U.S. economy, in establishing its allowance for doubtful accounts. Kforce estimates its allowance for Direct Hire fallouts based on our historical experience with the actual occurrence of fallouts. Kforce estimates its reserve for future revenue adjustments (e.g. bill rate adjustments, time card adjustments, early pay discounts) based on our historical experience.	We have not made any material changes in the accounting methodology used to establish our allowance for doubtful accounts, fallouts and other accounts receivable reserves. As of December 31, 2016 and 2015, these allowances were 1.0% and 1.1% as a percentage of gross accounts receivable, respectively. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our allowance for doubtful accounts, fallouts and other accounts receivable reserves. However, if our estimates regarding estimated accounts receivable losses are inaccurate, we may be exposed to losses or gains that could be material. A 10% change in accounts receivable reserved at December 31, 2016, would have impacted our net income for 2016 by approximately $0.1 million.
GOODWILL IMPAIRMENT We evaluate goodwill for impairment annually or more frequently whenever events or circumstances indicate that the fair value of a reporting unit is below its carrying value. We monitor the existence of potential impairment indicators throughout the year. See Note 5—"Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements, included in this Annual Report for a complete discussion of the valuation methodologies employed. The carrying value of goodwill as of December 31, 2016 by reporting unit was approximately $17.0 million, $8.0 million and $20.9 million for our Tech, FA and GS reporting units, respectively.	We determine the fair value of our reporting units using widely accepted valuation techniques, including the discounted cash flow, guideline transaction method and guideline company method. These types of analyses contain uncertainties because they require management to make significant assumptions and judgments including: (1) an appropriate rate to discount the expected future cash flows; (2) the inherent risk in achieving forecasted operating results; (3) long-term growth rates; (4) expectations for future economic cycles; (5) market comparable companies and appropriate adjustments thereto; and (6) market multiples. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations.	For our Tech and FA reporting units, Kforce assessed the qualitative factors of each reporting unit to determine if it was more likely than not that the fair value of the reporting unit was less than its carrying amount. Based upon the qualitative assessments, it was determined that it was not more likely than not that the fair values of the reporting units were less than the carrying values. For our GS reporting unit, however, a quantitative step one impairment assessment was performed as of December 31, 2016. We compared the carrying value of the GS reporting unit to its estimated fair value noting that the fair value exceeded carrying value by over 100%. As a result, no goodwill impairment charges were recognized during the year ended December 31, 2016. Although the valuation of the business supported its carrying value in 2016, a deterioration in any of the assumptions could result in an additional impairment charge in the future.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
SELF-INSURED LIABILITIES We are self-insured for certain losses related to health insurance and workers' compensation claims that are below insurable limits. However, we obtain third-party insurance coverage to limit our exposure to claims in excess of insurable limits. When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, plan structure, internal claims management activities, demographic factors and severity factors. Periodically, management reviews its assumptions to determine the adequacy of our self-insured liabilities. Our liabilities for health insurance and workers' compensation claims as of December 31, 2016 were $2.8 million and $1.3 million, respectively.	Our self-insured liabilities contain uncertainties because management is required to make assumptions and to apply judgment to estimate the ultimate total cost to settle reported claims and claims incurred but not reported ("IBNR") as of the balance sheet date.	We have not made any material changes in the accounting methodologies used to establish our self-insured liabilities during 2016 and 2015. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% change in our self-insured liabilities related to health insurance and workers' compensation as of December 31, 2016 would have impacted our net income for 2016 by approximately $0.2 million.
DEFINED BENEFIT PENSION PLAN We have a defined benefit pension plan that benefits certain named executive officers, the Supplemental Executive Retirement Plan ("SERP"). See Note 9 – "Employee Benefit Plans" in the Notes to Consolidated Financial Statements, included in this Annual Report for a complete discussion of the terms of this plan. The SERP was not funded as of December 31, 2016 or 2015.	When estimating the obligation for our pension benefit plan, management is required to make certain assumptions and to apply judgment with respect to determining an appropriate discount rate, bonus percentage assumptions and expected effect of future compensation increases for the participants in the plan.	We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our obligation. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% change in the discount rate used to measure the net periodic pension cost for the SERP during 2016 would have had an insignificant impact on our net income for 2016.
ACCOUNTING FOR INCOME TAXES See Note 4—"Income Taxes" in the Notes to Consolidated Financial Statements, included in this Annual Report for a complete discussion of the components of Kforce's income tax expense, as well as the temporary differences that exist as of December 31, 2016.	Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we conduct business. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions, including those that may be uncertain. Kforce is also required to exercise judgment with respect to the realization of our net deferred tax assets. Management evaluates all positive and negative evidence and exercises judgment regarding past and future events to determine if it is more likely than not that all or some portion of the deferred tax assets may not be realized. If appropriate, a valuation allowance is recorded against deferred tax assets to offset future tax benefits that may not be realized.	We do not believe that there is a reasonable likelihood that there will be a material change in our effective income tax rate or our liability for uncertain income tax positions. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses that could be material. Kforce recorded a valuation allowance of approximately $0.1 million as of December 31, 2016 related primarily to state net operating losses. A 0.50% change in our effective income tax rate would have impacted our net income for 2016 by approximately $0.3 million.

NEW ACCOUNTING STANDARDS

See Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in this Annual Report for a discussion of new accounting standards.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Kforce is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) of the Exchange Act. Kforce's internal control system was designed to provide reasonable assurance to Kforce's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of the CEO and the CFO, Kforce's management assessed the effectiveness of Kforce's internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our assessment we believe that, as of December 31, 2016, Kforce's internal control over financial reporting is effective based on those criteria.

Kforce's independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on our internal control over financial reporting. This report follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Kforce Inc.
Tampa, FL

We have audited the accompanying consolidated balance sheets of Kforce Inc. and subsidiaries ("Kforce") as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. We also have audited Kforce's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Kforce's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Kforce's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kforce Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Kforce maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

Certified Public Accountants
Tampa, Florida
February 24, 2017

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

Years Ended December 31,	**2016**	2015	2014
Net service revenues	**$1,319,706**	$1,319,238	$1,217,331
Direct costs of services	**911,207**	905,124	842,750
Gross profit	**408,499**	414,114	374,581
Selling, general and administrative expenses	**341,196**	330,416	315,338
Depreciation and amortization	**8,701**	9,831	9,894
Income from operations	**58,602**	73,867	49,349
Other expense, net	**2,647**	2,195	1,392
Income from continuing operations, before income taxes	**55,955**	71,672	47,957
Income tax expense	**23,182**	28,848	18,559
Income from continuing operations	**32,773**	42,824	29,398
Income from discontinued operations, net of income taxes	**—**	—	61,517
Net income	**32,773**	42,824	90,915
Other comprehensive (loss) income:			
Defined benefit pension and post-retirement plans, net of tax	**(134)**	689	(688)
Comprehensive income	**$ 32,639**	$ 43,513	$ 90,227
Earnings per share—basic:			
From continuing operations	**$1.26**	$1.53	$0.94
From discontinued operations	**$ —**	$ —	$1.95
Earnings per share—basic	**$1.26**	$1.53	$2.89
Earnings per share—diluted:			
From continuing operations	**$1.25**	$1.52	$0.93
From discontinued operations	**$ —**	$ —	$1.94
Earnings per share—diluted	**$1.25**	$1.52	$2.87
Weighted average shares outstanding—basic	**26,099**	27,910	31,475
Weighted average shares outstanding—diluted	**26,274**	28,190	31,691
Cash dividends declared per share	**$0.48**	$0.45	$0.41

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

CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31,	**2016**	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,482**	$ 1,497
Trade receivables, net of allowances of $2,066 and $2,121, respectively	**206,361**	198,933
Income tax refund receivable	**172**	526
Deferred tax assets, net	**4,799**	4,518
Prepaid expenses and other current assets	**10,691**	9,060
Total current assets	**223,505**	214,534
Fixed assets, net	**43,145**	37,476
Other assets, net	**30,511**	28,671
Deferred tax assets, net	**18,650**	20,938
Intangible assets, net	**3,642**	4,235
Goodwill	**45,968**	45,968
Total assets	**$ 365,421**	$ 351,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued liabilities	**$ 37,230**	$ 39,227
Accrued payroll costs	**44,137**	46,125
Other current liabilities	**1,765**	1,287
Income taxes payable	**221**	1,107
Total current liabilities	**83,353**	87,746
Long-term debt—credit facility	**111,547**	80,472
Long-term debt—other	**3,984**	3,351
Other long-term liabilities	**44,801**	40,626
Total liabilities	**243,685**	212,195
Commitments and contingencies (see Note 12)		
Stockholders' Equity:		
Preferred stock, $0.01 par; 15,000 shares authorized, none issued and outstanding	**—**	—
Common stock, $0.01 par; 250,000 shares authorized, 71,268 and 70,558 issued, respectively	**713**	705
Additional paid-in capital	**428,212**	420,276
Accumulated other comprehensive income	**184**	318
Retained earnings	**174,967**	155,096
Treasury stock, at cost; 44,469 and 42,130 shares, respectively	**(482,340)**	(436,768)
Total stockholders' equity	**121,736**	139,627
Total liabilities and stockholders' equity	**$ 365,421**	$ 351,822

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

Years Ended December 31,	2016	2015	2014
Common stock—shares:			
Shares at beginning of period	**70,558**	70,029	69,480
Issuance for stock-based compensation and dividends, net of forfeitures	**695**	497	444
Exercise of stock options	**15**	32	105
Shares at end of period	**71,268**	70,558	70,029
Common stock—par value:			
Balance at beginning of period	**$ 705**	$ 700	$ 695
Issuance for stock-based compensation and dividends, net of forfeitures	**8**	5	4
Exercise of stock options	**0**	0	1
Balance at end of period	**$ 713**	$ 705	$ 700
Additional paid-in capital:			
Balance at beginning of period	**$ 420,276**	$ 412,642	$ 404,600
Issuance for stock-based compensation and dividends, net of forfeitures	**447**	556	369
Exercise of stock options	**172**	381	1,213
Income tax benefit from stock-based compensation	**307**	551	595
Stock-based compensation expense	**6,705**	5,819	5,475
Employee stock purchase plan	**305**	327	390
Balance at end of period	**$ 428,212**	$ 420,276	$ 412,642
Accumulated other comprehensive income (loss):			
Balance at beginning of period	**$ 318**	$ (371)	$ 317
Defined benefit pension and post-retirement plans, net of tax of $89, $429 and $394, respectively	**(134)**	689	(688)
Balance at end of period	**$ 184**	$ 318	$ (371)
Retained earnings:			
Balance at beginning of period	**$ 155,096**	$ 125,378	$ 47,612
Net income	**32,773**	42,824	90,915
Dividends, net of forfeitures ($0.48, $0.45 and $0.41 per share, respectively)	**(12,902)**	(13,106)	(13,149)
Balance at end of period	**$ 174,967**	$ 155,096	$ 125,378
Treasury stock—shares:			
Shares at beginning of period	**42,130**	40,616	35,751
Repurchases of common stock	**2,370**	1,540	4,896
Shares tendered in payment of the exercise price of stock options	**3**	—	4
Employee stock purchase plan	**(34)**	(26)	(35)
Shares at end of period	**44,469**	42,130	40,616
Treasury stock—cost:			
Balance at beginning of period	**$(436,768)**	$(398,961)	$(295,991)
Repurchases of common stock	**(45,873)**	(38,058)	(103,195)
Shares tendered in payment of the exercise price of stock options	**(63)**	—	(84)
Employee stock purchase plan	**364**	251	309
Balance at end of period	**$(482,340)**	$(436,768)	$(398,961)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended December 31,	**2016**	2015	2014
Cash flows from operating activities:			
Net income	**$ 32,773**	$ 42,824	$ 90,915
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Gain on sale of discontinued operations	**—**	—	(64,600)
Deferred income tax provision, net	**2,007**	2,380	491
Provision for bad debts on accounts receivable	**976**	1,553	825
Depreciation and amortization	**8,796**	9,849	10,058
Stock-based compensation expense	**6,705**	5,819	3,028
Defined benefit pension and post-retirement plans expense	**1,733**	1,846	1,424
Excess tax benefit attributable to stock-based compensation	**(376)**	(551)	—
Loss on deferred compensation plan investments, net	**597**	77	446
Gain from Company-owned life insurance proceeds	**—**	—	(849)
Contingent consideration liability remeasurement	**(42)**	321	—
Other	**321**	308	(47)
(Increase) decrease in operating assets:			
Trade receivables, net	**(8,403)**	4,223	(40,339)
Income tax refund receivable	**354**	2,785	4,409
Prepaid expenses and other current assets	**(1,631)**	1,110	530
Other assets, net	**(495)**	(298)	(27)
(Decrease) increase in operating liabilities:			
Accounts payable and other current liabilities	**(1,920)**	1,788	5,653
Accrued payroll costs	**(1,320)**	(5,503)	(248)
Income taxes payable	**(489)**	(1,657)	(34,934)
Other long-term liabilities	**(139)**	3,306	(2,317)
Cash provided by (used in) operating activities	**39,447**	70,180	(25,582)
Cash flows from investing activities:			
Capital expenditures	**(12,420)**	(8,328)	(6,010)
Acquisition, net of cash received	**—**	—	(2,611)
Proceeds from disposition of business	**—**	—	117,887
Proceeds from the disposition of assets held within the Rabbi Trust	**—**	445	2,668
Purchase of assets held within the Rabbi Trust	**—**	(481)	(2,436)
Proceeds from Company-owned life insurance	**—**	—	1,037
Cash (used in) provided by investing activities	**(12,420)**	(8,364)	110,535
Cash flows from financing activities:			
Proceeds from credit facility	**937,083**	604,668	684,427
Payments on credit facility	**(906,008)**	(617,529)	(653,701)
Proceeds from other financing arrangements	**1,783**	2,914	—
Payments on other financing arrangements	**(1,830)**	(1,274)	(1,280)
Payments of deferred financing fees	**(158)**	—	(460)
Proceeds from exercise of stock options, net of shares tendered in payment of exercise	**172**	381	1,131
Excess tax benefit attributable to stock-based compensation	**376**	551	—
Repurchases of common stock	**(46,013)**	(38,471)	(101,771)
Cash dividend	**(12,447)**	(12,545)	(12,776)
Other	**—**	(252)	(160)
Cash used in financing activities	**(27,042)**	(61,557)	(84,590)
Change in cash and cash equivalents	**(15)**	259	363
Cash and cash equivalents at beginning of year	**1,497**	1,238	875
Cash and cash equivalents at end of year	**$ 1,482**	$ 1,497	$ 1,238

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. GAAP and the rules of the SEC.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most important of these estimates and assumptions relate to the following: allowance for doubtful accounts, fallouts and other accounts receivable reserves; accounting for goodwill and identifiable intangible assets and any related impairment; self-insured liabilities for workers' compensation and health insurance; obligations for pension plans and accounting for income taxes. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Revenue Recognition

Kforce considers amounts to be earned once evidence of an arrangement has been obtained, delivery has occurred, fees are fixed or determinable, and collectability is reasonably assured. Kforce's primary sources of revenues are Flex and Direct Hire.

Flex revenues are recognized as the services are provided by Kforce's consultants. Kforce records revenues net of credits, discounts, rebates and revenue-related reserves. Revenues include reimbursements of travel and out-of-pocket expenses ("billable expenses") with equivalent amounts of expense recorded in direct costs of services.

Direct Hire revenues are recognized by Kforce when employment candidates accept offers of permanent employment and are scheduled to commence employment within 30 days. Kforce records revenues net of an estimated reserve for fallouts, which is based on Kforce's historical fallout experience. Fallouts occur when a candidate does not remain employed with the client through the contingency period, which is typically 90 days or less.

Our GS segment generates its revenues under contracts that are, in general, greater in duration than our other segments and which can often span several years, inclusive of renewal periods. Our GS segment does not generate any Direct Hire revenues. Our GS segment, which represents approximately 7% of total revenues, generates revenues under the following contract arrangements.

- Revenues for time-and-materials contracts, which accounts for approximately 62% of this segment's revenue, are recognized based on contractually established billing rates at the time services are provided.
- Revenues for fixed-price contracts are recognized on the basis of the estimated percentage-of-completion. Approximately 22% of this segment's revenues are recognized under this method. Progress towards completion is typically measured based on costs incurred as a proportion of estimated total costs or other measures of progress when applicable. Profit in a given period is reported at the expected profit margin to be achieved on the overall contract.
- Revenues for the product-based business, which accounts for approximately 16% of this segment's revenues, are recognized at the time of delivery.

Kforce collects sales tax for various taxing authorities and it is our policy to record these amounts on a net basis; thus, sales tax amounts are not included in net service revenues.

Direct Costs of Services

Direct costs of services are composed of all related costs of employment for its consultants, including payroll wages, payroll taxes, payroll-related insurance and certain fringe benefits, as well as subcontractor costs. Direct costs of services exclude depreciation and amortization expense, which is presented on a separate line in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Commissions

Our associates make placements and earn commissions as a percentage of revenues (for Direct Hire revenues) or gross profit (for Flex revenues) pursuant to a calendar-year-basis commission plan. The amount of commissions paid as a percentage of revenues or gross profit increases as volume increases. Kforce accrues commissions for revenues or gross profit at a percentage equal to the percent of total expected commissions payable to total revenues or gross profit for the year, as applicable.

Stock-Based Compensation

Kforce accounts for stock-based compensation by measuring the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the requisite service period, net of estimated forfeitures. If the actual number of forfeitures differs from those estimated, additional adjustments to compensation expense may be required in future periods.

Income Taxes

Kforce accounts for income taxes using the asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Unless it is more likely than not that a deferred tax asset can be utilized to offset future taxes, a valuation allowance is recorded against that asset. The excess tax benefits of deductions attributable to employees' disqualifying dispositions of shares obtained from incentive stock options, exercises of non-qualified stock options, and vesting of restricted stock are reflected as increases in additional paid-in capital.

Kforce evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. Kforce uses a two-step approach to recognize and measure uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, tax positions are measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. Kforce recognizes interest and penalties related to unrecognized tax benefits in Income tax expense in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Cash and Cash Equivalents

Kforce classifies all highly liquid investments with an original initial maturity of three months or less as cash equivalents. Cash and cash equivalents consist of cash on hand with banks, either in commercial accounts, or overnight interest-bearing money market accounts and at times may exceed federally insured limits. Cash and cash equivalents are stated at cost, which approximates fair value due to the short duration of their maturities.

Accounts Receivable and Accounts Receivable Reserves

Kforce records accounts receivable at the invoiced amount. Kforce establishes its reserves for expected credit losses, fallouts, early payment discounts and revenue adjustments based on past experience and estimates of potential future activity. Specific to our allowance for doubtful accounts, which comprises a majority of our accounts receivable reserves, Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, a specific analysis of significant receivable balances that are past due, the concentration of accounts receivable among clients and higher-risk sectors, and the current state of the U.S. economy. Trade receivables are written off by Kforce after all reasonable collection efforts have been exhausted. Accounts receivable reserves as a percentage of gross accounts receivable was 1.0% and 1.1% as of December 31, 2016 and December 31, 2015, respectively.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases, which generally range from three to five years. Upon sale or disposition of our fixed assets, the cost and accumulated depreciation are removed and any resulting gain or loss, net of proceeds, is reflected in the Consolidated Statements of Operations and Comprehensive Income.

Leases

Leases for our field offices, which are located throughout the U.S., range from three to five-year terms although a limited number of leases contain short-term renewal provisions that range from month-to-month to one year.

For leases that contain escalations of the minimum rent, we recognize the related rent expense on a straight-line basis over the lease term. We record any difference between the straight-line rent amounts and amounts payable under the leases as a deferred rent liability in Accounts payable and other accrued liabilities or Other long-term liabilities, as appropriate.

The Company records incentives provided by landlords for leasehold improvements in Accounts payable and other accrued liabilities or Other long-term liabilities, as appropriate, and records a corresponding reduction in rent expense on a straight-line basis over the lease term.

Goodwill and Other Intangible Assets

Goodwill

We evaluate goodwill for impairment annually or more frequently if an event occurs or circumstances change that indicate the carrying value may not be recoverable. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that the fair value may be impaired or if we elect not to utilize a qualitative assessment for the evaluation, we perform a two-step impairment test. Under the two-step analysis method, the recoverability of goodwill is measured at the reporting unit level, which Kforce has determined to be consistent with its reporting segments, by comparing the reporting unit's carrying amount, including goodwill, to the fair market value of the reporting unit. Kforce determines the fair market value of its reporting units based on a weighting of the present value of projected future cash flows (the "income approach") and the use of comparative market approaches under both the guideline company method and guideline transaction method (collectively, the "market approach"). Fair market value using the income approach is based on Kforce's estimated future cash flows on a discounted basis. The market approach compares each of Kforce's reporting units to other comparable companies based on valuation multiples derived from operational and transactional data to arrive at a fair value. Factors requiring significant judgment include, among others, the assumptions related to discount rates, forecasted operating results, long-term growth rates, the determination of comparable companies, and market multiples. Changes in economic or operating conditions or changes in Kforce's business strategies that occur after the annual impairment analysis and which impact these assumptions may result in a future goodwill impairment charge, which could be material to Kforce's consolidated financial statements.

Other Intangible Assets

Identifiable intangible assets arising from certain of Kforce's acquisitions include non-compete and employment agreements, contractual relationships, customer contracts, technology, and a trade name and trademark. Our trade names and trademarks, and derivatives thereof, and GS's Data Confidence trademark are important to our business. Our primary trade names and trademark are registered with the U.S. Patent and Trademark Office.

For definite-lived intangible assets, amortization is computed using the straight-line method over the period of expected benefit, which ranges from one to fifteen years. The impairment evaluation for indefinite-lived intangible assets, which for Kforce consists of a trademark and trade name, is conducted on an annual basis or more frequently if events or changes in circumstances indicate that an asset may be impaired.

Impairment of Long-Lived Assets

Kforce reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceed the fair value of the assets, as determined based on the present value of projected future cash flows.

Capitalized Software

Kforce purchases, develops, and implements software to enhance the performance of our technology infrastructure. Direct internal costs, such as payroll and payroll-related costs, and external costs incurred during the development stage are capitalized and classified as capitalized software. Capitalized software development costs and the associated accumulated amortization are classified as Other assets, net in the accompanying Consolidated Balance Sheets; amortization is computed using the straight-line method over the estimated useful lives of the software, which range from one to seven years.

Workers' Compensation

Kforce retains the economic burden for the first $250 thousand per occurrence in workers' compensation claims except: (1) in states that require participation in state-operated insurance funds and (2) for Kforce Government Solutions, Inc. which is fully insured for workers' compensation claims. Workers' compensation includes ongoing health care and indemnity coverage for claims and may be paid over numerous years following the date of injury. Workers' compensation expense includes insurance premiums paid, claims administration fees charged by Kforce's workers' compensation administrator, premiums paid to state-operated insurance funds and an estimate for Kforce's liability for IBNR claims and for the ongoing development of existing claims.

Kforce estimates its workers' compensation liability based upon historical claims experience, actuarially determined loss development factors, and qualitative considerations such as claims management activities.

Health Insurance

Except for certain fully insured health insurance lines of coverage, Kforce retains the risk of loss for each health insurance plan participant up to $350 thousand in claims annually. Additionally, for all claim amounts exceeding $350 thousand, Kforce retains the risk of loss up to an aggregate annual loss of those claims of $450 thousand. For its partially self-insured lines of coverage, health insurance costs are accrued using estimates to approximate the liability for reported claims and IBNR claims, which are primarily based upon an evaluation of historical claims experience, actuarially-determined completion factors and a qualitative review of our health insurance exposure including the extent of outstanding claims and expected changes in health insurance costs.

Accounting for Pension Benefits

Kforce recognizes the unfunded status of its defined benefit pension plans as a liability in its Consolidated Balance Sheets. Because our plans are unfunded as of December 31, 2016, actuarial gains and losses may arise as a result of the actuarial experience of the plans, as well as changes in actuarial assumptions in measuring the associated obligation as of year-end, or an interim date if any re-measurement is necessary. The net after-tax impact of unrecognized actuarial gains and losses related to our defined benefit pensions plans is recorded in accumulated other comprehensive income (loss) in our consolidated financial statements.

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

Earnings per Share

Basic earnings per share is computed as earnings divided by the weighted average number of common shares outstanding ("WASO") during the period. WASO excludes unvested shares of restricted stock. Diluted earnings per common share is computed by dividing the earnings attributable to common shareholders by diluted WASO. Diluted WASO includes the dilutive effect of stock options and other potentially dilutive securities such as unvested shares of restricted stock using the treasury stock method, except where the effect of including potential common shares would be anti-dilutive.

For the years ended December 31, 2016, 2015 and 2014, there were 175 thousand, 280 thousand and 216 thousand, respectively, common stock equivalents included in the diluted WASO. For the years ended December 31, 2016, 2015 and 2014, there was an insignificant amount of anti-dilutive common stock equivalents.

Treasury Stock

Kforce's Board may authorize share repurchases of Kforce's common stock. Shares repurchased under Board authorizations are held in treasury for general corporate purposes, including issuances under the 2009 Employee Stock Purchase Plan. Treasury shares are accounted for under the cost method and reported as a reduction of stockholders' equity in the accompanying consolidated financial statements.

Fair Value Measurements

Kforce uses fair value measurements in areas that include, but are not limited to: the impairment testing of goodwill and intangible and long-lived assets; stock-based compensation arrangements; and a contingent consideration liability. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. Using available market information and appropriate valuation methodologies, Kforce has determined the estimated fair value measurements; however, considerable judgment is required in interpreting data to develop the estimates of fair value.

New Accounting Standards

In January 2017, the FASB issued authoritative guidance simplifying the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under this guidance, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance is to be applied for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The guidance requires companies to apply the requirements prospectively. Kforce is currently evaluating the impact on the consolidated financial statements.

In December 2016, the FASB issued authoritative guidance clarifying language when accounting for internal-use software licensed from third parties that is within the scope of Subtopic 350-40. According to the clarifying language, internal-use software licensed from third parties shall be accounted for as the acquisition of an intangible asset. The guidance is to be applied for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and early adoption is permitted. Kforce elected not to adopt this standard early. The guidance requires companies to apply the requirements prospectively or retrospectively. Upon adoption, Kforce anticipates retrospectively applying a change in the classification of internal-use software licensed from third parties from other assets to intangible assets on the consolidated balance sheet.

In August 2016, the FASB issued authoritative guidance clarifying eight cash flow classification issues that are not currently addressed or unclear under current GAAP and thereby reducing the current and potential future diversity in practice. The guidance is to be applied for annual periods beginning after December 15, 2017 and interim periods within those annual periods, and early adoption is permitted. The guidance requires companies to apply the requirements retrospectively, unless it is impracticable to apply the requirements retrospectively at which the requirements should be applied prospectively as of the earliest date practicable. Kforce elected not to adopt this standard early. Kforce does not anticipate that this guidance will have an impact on its consolidated financial statements as the cash flow classification issues are either not applicable or we are currently accounting for them in accordance with the clarified guidance.

In March 2016, the FASB issued authoritative guidance regarding the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is to be applied for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and early adoption is permitted. The guidance requires companies to apply the requirements retrospectively, modified retrospectively, or prospectively depending on the amendment(s) applied. Kforce elected not to adopt this standard early. Upon adoption, Kforce anticipates a prospective impact to our income tax expense line within our consolidated statements of operations and comprehensive income, the amount of which will depend on the vesting activity in any given period and Kforce's stock price on the vesting date. Additionally, we expect a retrospective change in the presentation of excess tax benefits from a financing to operating activity within our consolidated statements of cash flows. Kforce elected to change its policy regarding forfeitures and to account for forfeitures when they occur as opposed to applying an estimate to simplify our internal accounting practices. This change will be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

In February 2016, the FASB issued authoritative guidance regarding the accounting for leases. The guidance is to be applied for annual periods beginning after December 15, 2018 and interim periods within those annual periods, and early adoption is permitted. The guidance requires companies to apply the requirements retrospectively to all prior periods presented, including interim periods. Kforce elected not to adopt this standard early. Kforce is currently evaluating the impact on the consolidated financial statements.

In November 2015, the FASB issued authoritative guidance requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance is to be applied for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. Kforce elected not to adopt this standard early. Kforce anticipates a change to the presentation of the deferred tax liabilities and assets on the consolidated balance sheets upon adoption.

In May 2014, the FASB issued authoritative guidance regarding revenue from contracts with customers, which specifies that revenue should be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued authoritative guidance deferring the effective date of the new revenue standard by one year for all entities. The one-year deferral results in the guidance being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and entities are not permitted to adopt the standard earlier than the original effective date. Since May 2014, the FASB has issued additional and amended authoritative guidance regarding revenue from contracts with customers in order to clarify and improve the understanding of the implementation guidance. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We have selected the modified retrospective transition method. Based on our preliminary assessment, we believe that the timing of our revenue recognition will not be impacted for at least 95% of our revenues. The remainder of our revenues are derived from GS fixed-price contracts. We are reviewing these contracts in order to determine if there may be any change to the timing. Additionally, we anticipate a change in the classification of bad debt expense from SG&A to net service revenues. We are continuing to evaluate other items that may impact our revenue transaction prices. Furthermore, we do anticipate an increase in the level of disclosure around our arrangements and resulting revenue recognition.

2. DISCONTINUED OPERATIONS

Effective August 3, 2014, Kforce sold to RCM Acquisition, Inc. (the "Purchaser"), under a Stock Purchase Agreement (the "SPA") dated August 4, 2014, all of the issued and outstanding stock of KHI, a wholly-owned subsidiary of Kforce Inc. and operator of the former HIM reporting segment, for a total cash purchase price of $119.0 million plus a post-closing working capital adjustment of $96 thousand.

In connection with the sale, Kforce entered into a Transition Services Agreement (the "TSA") with the Purchaser to provide certain post-closing transitional services for a period not to exceed 12 months. Services provided by Kforce under the TSA ceased during the three months ended September 30, 2015. The fees for the services under the TSA were generally equivalent to Kforce's cost.

In accordance with and defined within the SPA, Kforce was obligated to indemnify the Purchaser for certain losses, as defined, in excess of $1.19 million, although this deductible does not apply to certain specified losses. Kforce's obligations under the indemnification provisions of the SPA, with the exception of certain items, ceased 12 months from the closing date and were limited to an aggregate of $8.925 million, although these time and monetary caps do not apply to certain specified losses. While it cannot be certain, Kforce believes any material exposure under the indemnification provisions is remote, particularly given that the 12-month time period for general indemnification claims has now passed and, as a result, Kforce has not recorded a liability as of December 31, 2015.

The total financial results of HIM have been presented as discontinued operations in the accompanying Consolidated Statements of Operations and Comprehensive Income. The following summarizes the revenues and pretax profits of HIM for the year ended December 31 (in thousands):

	2014
Net service revenues	$ 56,670
Income from discontinued operations, before income taxes	$103,512

For the year ended December 31, 2014, the income from discontinued operations included a gain, net of transaction costs, on the sale of HIM of $94.3 million pretax, or $56.1 million after tax. The transaction costs primarily included legal fees, stock-based compensation related to the acceleration of restricted stock, commissions and transaction bonuses in the form of cash and common stock, which, in the aggregate, totaled $11.0 million. Stock-based compensation related to acceleration of restricted stock was approximately $0.6 million and transaction bonuses was approximately $1.8 million, or 92 thousand shares of common stock. Kforce utilized the proceeds from the sale of HIM initially to pay down the outstanding borrowings under our credit facility and ultimately to repurchase shares of common stock.

Income tax expense as a percentage of income from discontinued operations, before income taxes, for the year ended December 31, 2014 was 40.6%.

3. FIXED ASSETS

The following table presents major classifications of fixed assets and related useful lives (in thousands):

December 31,	Useful Life	**2016**	2015
Land		**$ 5,892**	$ 5,892
Building and improvements	5-40 years	**25,701**	25,516
Furniture and equipment	5-20 years	**17,084**	11,802
Computer equipment	3-5 years	**11,003**	11,393
Leasehold improvements	3-5 years	**13,345**	11,632
		73,025	66,235
Less accumulated depreciation and amortization		**(29,880)**	(28,759)
		$ 43,145	$ 37,476

Computer equipment as of December 31, 2016 includes equipment acquired under capital leases of $4.0 million and related accumulated depreciation of $2.3 million. Computer equipment as of December 31, 2015 includes equipment acquired under capital leases of $4.7 million and related accumulated depreciation of $2.9 million. Depreciation and amortization expense, which includes amortization of capital leases, during the years ended December 31, 2016, 2015 and 2014 was $6.7 million, $6.7 million and $6.3 million, respectively.

4. INCOME TAXES

The provision for income taxes from continuing operations consists of the following (in thousands):

Years Ended December 31,	**2016**	2015	2014
Current:			
Federal	**$16,677**	$22,265	$15,782
State	**3,829**	4,632	2,527
Deferred	**2,676**	1,951	250
	$23,182	$28,848	$18,559

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

Years Ended December 31,	**2016**	2015	2014
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of Federal tax effect	**6.8**	6.1	3.2
Non-deductible compensation	**0.2**	—	1.1
Non-deductible meals and entertainment	**1.0**	0.7	1.1
Other	**(1.6)**	(1.5)	(1.7)
Effective tax rate	**41.4%**	40.3%	38.7%

The 2016 rate was unfavorably impacted by certain one-time non-cash adjustments. The 2015 rate was unfavorably impacted by a change in the overall mix of income in the various state jurisdictions and the increase in particular uncertain tax positions.

Deferred income tax assets and liabilities are composed of the following (in thousands):

December 31,	**2016**	2015
Deferred taxes, current:		
Assets:		
Accounts receivable reserves	**$ 812**	$ 982
Accrued liabilities	**3,005**	2,753
Deferred compensation obligation	**1,060**	895
Pension and post-retirement benefit plans	**755**	—
Other	**11**	74
Deferred tax assets, current	**5,643**	4,704
Liabilities:		
Prepaid expenses	**(260)**	(186)
Fixed assets	**(232)**	—
Other	**(352)**	—
Deferred tax asset, net—current	**4,799**	4,518
Deferred taxes, non-current:		
Assets:		
Accrued liabilities	**395**	613
Deferred compensation obligation	**8,146**	6,956
Stock-based compensation	**2,196**	1,817
Pension and post-retirement benefit plans	**5,274**	5,303
Goodwill and intangible assets	**3,869**	7,543
Other	**219**	320
Deferred tax assets, non-current	**20,099**	22,552
Liabilities:		
Fixed assets	**(1,361)**	(1,198)
Other	**(3)**	(331)
Deferred tax liabilities, non-current	**(1,364)**	(1,529)
Valuation allowance	**(85)**	(85)
Deferred tax asset, net—non-current	**18,650**	20,938
Net deferred tax asset	**$23,449**	$25,456

At December 31, 2016, Kforce had approximately $5.6 million of state tax net operating losses ("NOLs") which will be carried forward to be offset against future state taxable income. The state tax NOLs expire in varying amounts through 2033.

In evaluating the realizability of Kforce's deferred tax assets, management assesses whether it is more likely than not that some portion, or all, of the deferred tax assets, will be realized. Management considers, among other things, the ability to generate future taxable income (including reversals of deferred tax liabilities) during the periods in which the related temporary differences will become deductible.

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2016 and 2015, there were no ongoing IRS examinations. Although Kforce has not experienced any material liabilities in the past due to income tax audits, Kforce can make no assurances concerning any future income tax audits.

Uncertain Income Tax Positions

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended (in thousands):

December 31,	**2016**	2015	2014
Beginning balance	**$ 788**	$278	$ 403
Additions for tax positions of prior years	**454**	625	90
Reductions for tax positions of prior years	**(25)**	(8)	(11)
Lapse of statute of limitations	**(102)**	(25)	(24)
Settlements	**—**	(82)	(180)
Ending balance	**$1,115**	$788	$ 278

As of December 31, 2016, the amount of unrecognized tax benefit that would impact the effective tax rate, if recognized, is $0.7 million. Kforce does not expect any significant changes to its uncertain tax positions in the next 12 months.

Kforce and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. Kforce Global Solutions, Inc. files income tax returns in the Philippines. With a few exceptions, Kforce is no longer subject to federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2012.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the gross amount and accumulated impairment losses for each of our reporting units as of December 31, 2016, 2015 and 2014, respectively (in thousands):

	Technology	Finance and Accounting	Government Solutions	Total
Gross amount	$ 156,391	$ 19,766	$104,596	$ 280,753
Accumulated impairment losses	(139,357)	(11,760)	(83,668)	(234,785)
Carrying value	**$ 17,034**	**$ 8,006**	**$ 20,928**	**$ 45,968**

There was no impairment expense related to goodwill for the years ended December 31, 2016, 2015 and 2014, respectively.

Throughout 2016, we considered the qualitative and quantitative factors associated with each of our reporting units and determined that there was no indication that the carrying values of any of our reporting units were likely impaired.

For our annual impairment assessment of the carrying value of goodwill for our Technology and Finance and Accounting reporting units as of December 31, 2016 and 2015, we assessed qualitative factors to determine whether the existence of events or circumstances indicated that it was more likely than not that the fair value of the reporting units was less than its carrying amount. We concluded that it was more likely than not that the fair value of these reporting units was more than their carrying amounts.

For our annual impairment assessment of the carrying value of goodwill for our Government Solutions reporting unit as of December 31, 2016 and 2015, we compared its carrying value to the estimated fair value based on a weighting of the income approach and market approaches ("step one"). Discounted cash flows, which serve as the primary basis for the income approach, were based on a discrete financial forecast which was developed by management for planning purposes. Cash flows beyond the discrete forecast period of five years were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends and also considered long-term earnings growth rates for publicly-traded peer companies, as well as the risk-free rate of return. The discrete financial forecast includes certain adjustments of costs that Kforce believes a market participant buyer, such as a large government contractor, would incur to operate the Government Solutions reporting unit. The market approaches consist of: (1) the guideline company method and (2) the guideline transaction method. The guideline company method applies pricing multiples derived from publicly-traded guideline companies that are comparable to the reporting unit to determine its value. The guideline transaction method applies pricing multiples derived from recently completed acquisitions that we believe are reasonably comparable to the reporting unit to determine fair value. Our assessment indicated that the fair value of the Government Solutions reporting unit exceeded its carrying value.

For the impairment test performed as of December 31, 2014, Kforce performed a step one analysis for each reporting unit and compared the carrying value of Technology, Finance and Accounting and Government Solutions to the respective estimated fair values. Our assessments indicated that the fair value of the reporting units exceeded their carrying value.

Other Intangible Assets

Our other intangible assets balance includes an indefinite-lived trademark of $2.2 million as of December 31, 2016 and 2015, respectively, and is recorded in Intangible assets, net in the accompanying Consolidated Balance Sheets. As of December 31, 2016 and 2015, our definite-lived intangible assets balance of $1.4 million and $2.0 million included accumulated amortization of $27.2 million and $26.6 million, respectively. There was no impairment expense related to our other intangible assets during the years ended December 31, 2016, 2015 and 2014.

6. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities consisted of the following (in thousands):

December 31,	**2016**	2015
Accounts payable	**$20,321**	$23,513
Accrued liabilities	**16,909**	15,714
	$37,230	$39,227

Our accounts payable balance includes trade creditor and independent contractor payables. Our accrued liabilities balance includes the current portion of our deferred compensation plans liability, accrued customer rebates and other accrued liabilities.

7. ACCRUED PAYROLL COSTS

Accrued payroll costs consisted of the following (in thousands):

December 31,	**2016**	2015
Payroll and benefits	**$37,409**	$39,043
Payroll taxes	**2,640**	2,832
Health insurance liabilities	**2,790**	2,968
Workers' compensation liabilities	**1,298**	1,282
	$44,137	$46,125

8. CREDIT FACILITY

On September 20, 2011, Kforce entered into a Third Amended and Restated Credit Agreement, with a syndicate led by Bank of America, N.A. This was amended on March 30, 2012 through the execution of a Consent and First Amendment, on December 27, 2013 through the execution of a Second Amendment and Joinder, and further amended on December 23, 2014 through the execution of a Third Amendment (as amended to date, the "Credit Facility") resulting in a maximum borrowing capacity of $170.0 million, as well as an accordion option of $50.0 million. The maximum borrowings available to Kforce under the Credit Facility, absent Kforce exercising all or a portion of the accordion, are limited to: (a) a revolving Credit Facility of up to $170.0 million and (b) a $15.0 million sub-limit included in the Credit Facility for letters of credit.

Available borrowings under the Credit Facility are limited to 85% of the net amount of eligible accounts receivable (billed and unbilled), plus 80% of the net amount of eligible employee placement accounts, plus 80% of the appraised market value of the Firm's corporate headquarters reduced each subsequent quarter by an amount equal to 1/80th of the initial amount, minus certain minimum availability reserves.

Borrowings under the Credit Facility are secured by substantially all of the assets of the Firm, including the Firm's corporate headquarters property.

Outstanding borrowings under the revolving Credit Facility bear interest at a rate of: (a) LIBOR plus an applicable margin based on various factors; or (b) the higher of (1) the prime rate, (2) the federal funds rate plus 0.50% or (3) LIBOR plus 1.25%. Fluctuations in the ratio of unbilled to billed receivables could result in material changes to availability from time to time. Letters of credit issued under the Credit Facility require Kforce to pay a fronting fee equal to 0.125% of the amount of each letter of credit issued, plus a per annum fee equal to the applicable margin for LIBOR loans based on the total letters of credit outstanding. To the extent that Kforce has unused availability under the Credit Facility, an unused line fee is required to be paid on a monthly basis equal to: (a) if the average daily aggregate revolver outstanding are less than 35% of the amount of the commitments, 0.35% or (b) if the average daily aggregate revolver outstanding are greater than 35% of the amount of the commitments, 0.25% times the amount by which the maximum revolver amount exceeded the sum of the average daily aggregate revolver outstanding, during the immediately preceding month or shorter period if calculated for the first month hereafter or on the termination date.

Under the Credit Facility, Kforce is subject to certain affirmative and negative covenants including, but not limited to, a fixed charge coverage ratio, which is only applicable in the event that the Firm's availability under the Credit Facility falls below the greater of (a) 10% of the aggregate amount of the commitment of all of the lenders under the Credit Facility and (b) $11 million. The numerator in the fixed charge coverage ratio is defined pursuant to the Credit Facility as earnings before interest expense, income taxes, depreciation and amortization, including the amortization of stock-based compensation expense (disclosed as "Adjusted EBITDA"), less cash paid for capital expenditures. The denominator is defined as Kforce's fixed charges such as interest expense, principal payments paid or payable on outstanding debt other than borrowings under the Credit Facility, income taxes payable, and certain other payments. This financial covenant, if applicable, requires that the numerator be equal to or greater than the denominator.

Our ability to repurchase equity securities could be limited if the Firm's availability is less than the greater of (a) 15.0% of the aggregate amount of the commitment of all lenders under the Credit Facility or (b) $15.0 million. Also, our ability to make distributions could be limited if the Firm's availability is less than the greater of (a) 12.5% of the aggregate amount of the commitment of all lenders under the Credit Facility and (b) $20.6 million. Since Kforce had availability under the Credit Facility of $41.4 million as of December 31, 2016, the fixed charge coverage ratio covenant was not applicable nor was Kforce limited in making distributions or executing repurchases of its equity securities. Kforce believes that it will be able to maintain these minimum availability requirements; however, in the event that Kforce is unable to do so, Kforce could fail the fixed charge coverage ratio, which would constitute an event of default, or we could be limited in our ability to make distributions or repurchase equity securities. The Credit Facility expires December 23, 2019.

As of December 31, 2016 and 2015, $111.5 million and $80.5 million was outstanding under the Credit Facility, respectively. As of February 22, 2017, $117.2 million was outstanding and $35.7 million was available under the Credit Facility.

9. EMPLOYEE BENEFIT PLANS

401(k) Savings Plans

The Firm maintains various qualified defined contribution 401(k) retirement savings plans for eligible employees. Assets of these plans are held in trust for the sole benefit of employees and/or their beneficiaries. Employer matching contributions are discretionary and are funded annually as approved by Kforce's Board.

Kforce accrued matching 401(k) contributions of $1.5 million and $1.4 million as of December 31, 2016 and 2015, respectively. The plans held a combined 201 thousand and 218 thousand shares of Kforce's common stock as of December 31, 2016 and 2015, respectively.

Employee Stock Purchase Plan

Kforce's employee stock purchase plan allows all eligible employees to enroll each quarter to purchase Kforce's common stock at a 5% discount from its market price on the last day of the quarter. Kforce issued 34 thousand, 26 thousand and 35 thousand shares of common stock at an average purchase price of $19.37, $22.61 and $19.76 per share during the years ended December 31, 2016, 2015 and 2014, respectively. All shares purchased under the employee stock purchase plan were settled using Kforce's treasury stock.

Deferred Compensation Plans

The Firm maintains various non-qualified deferred compensation plans, pursuant to which eligible management and highly compensated key employees, as defined by IRS regulations, may elect to defer all or part of their compensation to later years. These amounts are classified in Accounts payable and other accrued liabilities if payable within the next year or in Other long-term liabilities if payable after the next year, upon retirement or termination of employment in the accompanying Consolidated Balance Sheets. At December 31, 2016 and 2015, amounts included in Accounts payable and other accrued liabilities related to the deferred compensation plans totaled $2.7 million and $2.3 million, respectively. Amounts included in Other long-term liabilities related to the deferred compensation plans totaled $27.5 million and $24.2 million as of December 31, 2016 and 2015, respectively. For the years ended December 31, 2016 and 2015, we recognized compensation expense for the plans of $881 thousand and $401 thousand, respectively. For the year ended December 31, 2014, we recognized compensation income from continuing operations for the plans of $187 thousand.

Kforce maintains a Rabbi Trust and holds life insurance policies on certain individuals to assist in the funding of the deferred compensation liability. If necessary, employee distributions are funded through proceeds from the sale of assets held within our Rabbi Trust. The balance of the assets within the Rabbi Trust, including the cash surrender value of the Company-owned life insurance policies, was $27.3 million and $25.5 million as of December 31, 2016 and 2015, respectively, and is recorded in Other assets, net in the accompanying Consolidated Balance Sheets. As of December 31, 2016, the life insurance policies had a cumulative face value of $213.1 million. Kforce had no gains or losses attributable to investments in trading securities for the years ended December 31, 2016, 2015 and 2014.

Supplemental Executive Retirement Plan

Kforce maintains a SERP for the benefit of certain executive officers. The primary goals of the SERP are to create an additional wealth accumulation opportunity, restore lost qualified pension benefits due to government limitations and retain our covered executive officers. The SERP is a non-qualified benefit plan and does not include elective deferrals of covered executive officers' compensation.

Normal retirement age under the SERP is defined as age 65; however, certain conditions allow for early retirement as early as age 55 or upon a change in control. Vesting under the plan is defined as 100% upon a participant's attainment of age 55 and 10 years of service and 0% prior to a participant's attainment of age 55 and 10 years of service. Full vesting also occurs if a participant with five years or more of service is involuntarily terminated by Kforce without cause or upon death, disability or a change in control. The SERP will be funded entirely by Kforce, and benefits are taxable to the covered executive officer upon receipt and deductible by Kforce when paid. Benefits payable under the SERP upon the occurrence of a qualifying distribution event, as defined, are targeted at 45% of the covered executive officers' average salary and bonus, as defined, from the three years in which the covered executive officer earned the highest salary and bonus during the last 10 years of employment, which is subject to adjustment for retirement prior to the normal retirement age and the participant's vesting percentage. The benefits under the SERP are reduced for a participant that has not reached age 62 with 10 years of service or age 55 with 25 years of service with a percentage reduction up to the normal retirement age.

Benefits under the SERP are based on the lump sum present value but may be paid over the life of the covered executive officer or 10-year annuity, as elected by the covered executive officer upon commencement of participation in the SERP. None of the benefits earned pursuant to the SERP are attributable to services provided prior to the effective date of the plan. For purposes of the measurement of the benefit obligation as of December 31, 2016, Kforce has assumed that all participants will elect to take the lump sum present value option based on historical trends.

Actuarial Assumptions

Due to the SERP being unfunded as of December 31, 2016 and 2015, it is not necessary for Kforce to determine the expected long-term rate of return on plan assets. The following table presents the weighted average actuarial assumptions used to determine the actuarial present value of projected benefit obligations at:

December 31,	**2016**	2015
Discount rate	**4.00%**	4.00%
Rate of future compensation increase	**3.60%**	4.00%

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

December 31,	**2016**	2015	2014
Discount rate	**4.00%**	3.75%	3.75%
Rate of future compensation increase	**4.00%**	4.00%	4.00%

The discount rate was determined using the Moody's Aa long-term corporate bond yield as of the measurement date with a maturity commensurate with the expected payout of the SERP obligation. This rate is also compared against the Citigroup Pension Discount Curve and Liability Index to ensure the rate used is reasonable and may be adjusted accordingly. This index is widely used by companies throughout the U.S. and is considered to be one of the preferred standards for establishing a discount rate.

The assumed rate of future compensation increases is based on a combination of factors, including the historical compensation increases for its covered executive officers and future target compensation levels for its covered executive officers taking into account the covered executive officers' assumed retirement date.

The periodic benefit cost is based on actuarial assumptions that are reviewed on an annual basis; however, Kforce monitors these assumptions on a periodic basis to ensure that they accurately reflect current expectations of the cost of providing retirement benefits.

Net Periodic Benefit Cost

The following table presents the components of net periodic benefit cost for the years ended (in thousands):

December 31,	**2016**	2015	2014
Service cost	**$1,310**	$1,323	$1,164
Interest cost	**453**	383	294
Net periodic benefit cost	**$1,763**	$1,706	$1,458

Changes in Benefit Obligation

The following table presents the changes in the benefit obligation for the years ended (in thousands):

December 31,	**2016**	2015
Projected benefit obligation, beginning	**$11,337**	$10,197
Service cost	**1,310**	1,323
Interest cost	**453**	383
Actuarial experience and changes in actuarial assumptions	**336**	(566)
Projected benefit obligation, ending	**$13,436**	$11,337

There were no payments made under the SERP during the years ended December 31, 2016 and 2015, respectively. The projected benefit obligation is recorded in Other long-term liabilities in the accompanying Consolidated Balance Sheets. The accumulated benefit obligation is the actuarial present value of all benefits attributed to past service, excluding future salary increases. The accumulated benefit obligation as of December 31, 2016 and 2015 was $12.7 million and $11.0 million, respectively.

Contributions

There is no requirement for Kforce to fund the SERP and, as a result, no contributions have been made to the SERP through the year ended December 31, 2016. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2017.

Estimated Future Benefit Payments

Undiscounted benefit payments by the SERP, which reflect the anticipated future service of participants, expected to be paid are as follows (in thousands):

	Projected Annual Benefit Payments
2017	$ —
2018	—
2019	—
2020	—
2021	12,450
2022-2026	—
Thereafter	4,864

Supplemental Executive Retirement Health Plan

Kforce maintained a Supplemental Executive Retirement Health Plan ("SERHP") to provide post-retirement health and welfare benefits to certain executives. The vesting and eligibility requirements mirrored that of the SERP, and no advance funding was required by Kforce or the participants. Consistent with the SERP, none of the benefits earned were attributable to services provided prior to the effective date of the plan.

During the year ended December 31, 2014, Kforce terminated the Company's SERHP and settled all future benefit obligations by making lump sum payments totaling approximately $3.9 million, which resulted in a net settlement loss of $0.7 million recorded in Selling, general and administrative expenses in the corresponding Consolidated Statements of Operations and Comprehensive Income. The termination effectively removed Kforce's related post-retirement benefit obligation.

Net Periodic Post-retirement Benefit Cost

The following represents the components of net periodic post-retirement benefit cost for the year ended December 31 (in thousands):

	2014
Service cost	$174
Interest cost	78
Settlement/curtailment loss	725
Net periodic benefit cost	$977

10. FAIR VALUE MEASUREMENTS

There were no transfers into or out of Level 1, 2 or 3 assets or liabilities during the years ended December 31, 2016 and 2015.

Kforce's financial statements include a contingent consideration liability related to a non-significant acquisition of a business within our Government Solutions reporting segment, which is measured on a recurring basis and is recorded at fair value, determined using the discounted cash flow method. The inputs used to calculate the fair value of the contingent consideration liability are considered to be Level 3 inputs due to the lack of relevant market activity and significant management judgment. An increase in future cash flows may result in a higher estimated fair value while a decrease in future cash flows may result in a lower estimated fair value of the contingent consideration liability. Remeasurements to fair value are recorded in Other expense, net within the Consolidated Statements of Operations and Comprehensive Income. For the years ended December 31, 2016 and 2015, approximately $42 thousand of income and $321 thousand of expense, respectively, was recognized due to the remeasurement of our contingent consideration liability. The contingent consideration liability is recorded in Other long-term liabilities within the Consolidated Balance Sheets and the estimated fair value as of December 31, 2016 and 2015 was $756 thousand and $798 thousand, respectively.

Certain assets, in specific circumstances, are measured at fair value on a non-recurring basis utilizing Level 3 inputs such as goodwill, other intangible assets and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition would be applicable if one or more of these assets were determined to be impaired.

11. STOCK INCENTIVE PLANS

On April 19, 2016, the Kforce shareholders approved the 2016 Stock Incentive Plan (“2016 Plan”). The 2016 Plan allows for the issuance of stock options, stock appreciation rights, stock awards (including restricted stock awards (“RSAs”) and restricted stock units (“RSUs”)) and other stock-based awards. The aggregate number of shares of common stock that are subject to awards under the 2016 Plan is approximately 1.6 million shares. The 2016 Plan terminates on April 19, 2026. Prior to the effective date of the 2016 Plan, the Company granted stock awards to eligible participants under our 2013 Stock Incentive Plan (“2013 Plan”) and 2006 Stock Incentive Plan (“2006 Plan”). As of the effective date of the 2016 Plan, no additional awards may be granted pursuant to the 2013 Plan and 2006 Plan; however, awards outstanding as of the effective date will continue to vest in accordance with the terms of the 2013 Plan and 2006 Plan, respectively.

During the years ended December 31, 2016, 2015 and 2014, Kforce recognized total stock-based compensation expense of $6.7 million, $5.8 million and $5.5 million, respectively. During the year ended December 31, 2014, Kforce recognized stock-based compensation expense from continuing operations of $3.0 million. The related tax benefit for the years ended December 31, 2016, 2015 and 2014 was $2.8 million, $2.3 million and $1.2 million, respectively.

Stock Options

The following table presents the activity under each of the stock incentive plans discussed above for the years ended December 31, 2016, 2015 and 2014 (in thousands, except per share amounts):

	Incentive Stock Option Plan	2006 Stock Incentive Plan	Total	Weighted Average Exercise Price Per Share	Total Intrinsic Value of Options Exercised
Exercisable as of December 31, 2013	97	83	180	$11.57	
Exercised	(57)	(48)	(105)	$11.61	$1,029
Forfeited/Cancelled	(18)	—	(18)	$11.00	
Exercisable as of December 31, 2014	22	35	57	$11.69	
Exercised	(22)	(10)	(32)	$11.78	$ 359
Exercisable as of December 31, 2015	—	25	25	$11.58	
Exercised	**—**	**(15)**	**(15)**	**$11.44**	**$ 75**
Exercisable as of December 31, 2016	**—**	**10**	**10**	**$11.79**	

The following table summarizes information about employee and director stock options under all of the plans mentioned above as of December 31, 2016 (in thousands, except per share amounts):

	Outstanding and Exercisable			
Range of Exercise Prices	Number of Awards (#)	Weighted Average Remaining Contractual Term (Yrs)	Weighted Average Exercise Price ($)	Total Intrinsic Value
$9.13—$14.45	10	1.07	$11.79	$113

No compensation expense was recorded during the years ended December 31, 2016, 2015 or 2014 as a result of the grant date fair value having been fully amortized as of December 31, 2009. As of December 31, 2016, there was no unrecognized compensation cost related to non-vested options.

Restricted Stock

Restricted stock (including RSAs and RSUs) are granted to executives and management either: (1) for awards related to Kforce’s annual long-term incentive (“LTI”) compensation program, or (2) as part of a compensation package and in order to retain directors, executives and management. The LTI award amounts are generally based on total shareholder return performance goals, which are established by Kforce’s Compensation Committee during the first quarter of the year of performance. The LTI restricted stock granted during the year ended December 31, 2016 will vest over a period of five years, with equal vesting annually. Other restricted stock granted during the year ended December 31, 2016 will vest over a period of between one to ten years, with equal vesting annually.

During the three months ended March 31, 2014, the Firm modified all awards containing a performance-acceleration feature that were granted during the three months ended December 31, 2013, as follows: (1) eliminated the performance-acceleration feature and (2) changed the time-based vesting term to five years, with equal vesting annually. The total number of restricted shares impacted by this modification was 268 thousand, excluding already forfeited shares, and the number of employees impacted was 87. The total incremental compensation cost resulting from the modification was $109 thousand, which will be amortized on a straight-line basis over the requisite service period of the modified awards.

RSAs contain the same voting rights as other common stock as well as the right to forfeitable dividends in the form of additional RSAs at the same rate as the cash dividend on common stock and containing the same vesting provisions as the underlying award. RSUs contain no voting rights, but have the right to forfeitable dividend equivalents in the form of additional RSUs at the same rate as the cash dividend on common stock and containing the same vesting provisions as the underlying award. The distribution of shares of common stock for each RSU issued under the 2016 Plan pursuant to the terms of the Kforce Inc. Director’s Restricted Stock Unit Deferral Plan can be deferred to a date later than the vesting date if an appropriate election was made. In the event of such deferral, vested RSUs have the right to dividend equivalents.

The following table presents the restricted stock activity for the years ended December 31, 2016, 2015 and 2014 (in thousands, except per share amounts):

	Number of Restricted Stock	Weighted Average Grant Date Fair Value	Total Intrinsic Value of Restricted Stock Vested
Outstanding as of December 31, 2013	811	$16.89	
Granted	528	$20.18	
Forfeited/Cancelled	(84)	$18.38	
Vested	(273)	$17.37	$5,624
Outstanding as of December 31, 2014	982	$18.55	
Granted	556	$24.01	
Forfeited/Cancelled	(59)	$19.37	
Vested	(186)	$18.28	$4,580
Outstanding as of December 31, 2015	1,293	$20.89	
Granted (1)	**1,048**	**$22.46**	
Forfeited/Cancelled	**(353)**	**$21.04**	
Vested	**(280)**	**$20.67**	**$6,434**
Outstanding as of December 31, 2016	**1,708**	**$21.86**	

(1) The increase in shares granted during the year ended December 31, 2016 as compared to 2015 and 2014 was due to a change in the grant date practice for our annual LTI awards. For greater clarity, Kforce has historically granted these annual awards on the first business day of the year following the end of the performance period; however, for the performance period ending December 31, 2016, the grant date was shifted to the last day of the performance period. This administrative change resulted in two annual grants being made during the year ended December 31, 2016 (a grant on January 4, 2016 for the performance period ending December 31, 2015 and a grant on December 31, 2016 for the performance period ending December 31, 2016).

The fair market value of restricted stock is determined based on the closing stock price of Kforce's common stock at the date of grant, and is amortized on a straight-line basis over the requisite service period.

As of December 31, 2016, total unrecognized compensation expense related to restricted stock was $27.5 million, which will be recognized over a weighted average remaining period of 4.4 years.

12. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Kforce leases space and operating assets under operating and capital leases expiring at various dates, with some leases cancelable upon 30 to 90 days' notice and with some leases containing escalation in rent clauses. The leases require Kforce to pay taxes, insurance and maintenance costs, in addition to rental payments.

Future minimum lease payments, inclusive of accelerated lease payments, under non-cancelable capital and operating leases are summarized as follows (in thousands):

	2017	2018	2019	2020	2021	Thereafter	Total
Capital leases							
Present value of payments	$ 965	$ 756	$ 148	$ 3	$ —	$—	$ 1,872
Interest	145	80	50	—	—	—	275
Capital lease payments	$1,110	$ 836	$ 198	$ 3	$ —	$—	$ 2,147
Operating leases							
Facilities	$8,651	$6,642	$4,348	$1,953	$784	$43	$22,421
Furniture and equipment	48	—	—	—	—	—	48
Total operating leases	$8,699	$6,642	$4,348	$1,953	$784	$43	$ 22,469
Total leases	$9,809	$7,478	$4,546	$1,956	$784	$43	$24,616

The present value of the minimum lease payments for capital lease obligations has been classified in Other current liabilities and Long-term debt—other in the accompanying Consolidated Balance Sheets, according to their respective maturities. Rental expense under operating leases was $7.7 million, $6.7 million and $5.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Purchase Commitments

Kforce has various commitments to purchase goods and services in the ordinary course of business; these commitments are primarily related to software and online application licenses and hosting. As of December 31, 2016, these commitments amounted to approximately $14.6 million and are expected to be paid as follows: $7.4 million in 2017; $4.2 million in 2018; $2.6 million in 2019; $0.4 million in 2020; and nil in 2021.

Letters of Credit

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2016, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling $3.1 million, and for facility lease deposits totaling $0.4 million.

Litigation

We are involved in legal proceedings, claims, and administrative matters that arise in the ordinary course of our business. We have made accruals with respect to certain of these matters, where appropriate, that are reflected in our consolidated financial statements but are not, individually or in the aggregate, considered material. For other matters for which an accrual has not been made, we have not yet determined that a loss is probable or the amount of loss cannot be reasonably estimated. While the ultimate outcome of the matters cannot be determined, we currently do not expect that these proceedings and claims, individually or in the aggregate, will have a material effect on our financial position, results of operations, or cash flows. The outcome of any litigation is inherently uncertain, however, and if decided adversely to us, or if we determine that settlement of particular litigation is appropriate, we may be subject to liability that could have a material adverse effect on our financial position, results of operations, or cash flows. Kforce maintains liability insurance in amounts and with such coverage and deductibles as management believes is reasonable. The principal liability risks that Kforce insures against are workers' compensation, personal injury, bodily injury, property damage, directors' and officers' liability, errors and omissions, cyber liability, employment practices liability and fidelity losses. There can be no assurance that Kforce's liability insurance will cover all events or that the limits of coverage will be sufficient to fully cover all liabilities. Accordingly, we disclose matters below for which a material loss is reasonably possible.

On August 25, 2016, Kforce Flexible Solutions LLC (along with co-defendant BMO Harris Bank) was served with a complaint brought in the Northern District of Illinois, U.S. District Court, Eastern District of Illinois. Shepard v. BMO Harris Bank N.A. et al., Case No.: 1:16-cv-08288. The plaintiff purports to bring claims on her own behalf and on behalf of putative class of telephone-dedicated workers for alleged violations of the Fair Labor Standards Act, the Illinois Minimum Wage Law, and the Illinois Wage Payment and Collection Act based upon the defendants' purported failure to pay her and other class members all earned regular and overtime pay for all time worked. More specifically, the plaintiff alleges that class employees were required to perform unpaid work before and after the start and end times of their shifts. She seeks unpaid back regular and overtime wages, liquidated damages, statutory penalties, and attorney fees and costs. We are vigorously defending each of the plaintiff's claims. At this stage in the litigation it is not feasible to predict the outcome of this matter or reasonably estimate a range of loss, should a loss occur, from this proceeding; however, based on our current knowledge, we believe that the final outcome of this matter is unlikely to have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows.

Income Tax Audits

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2016 and 2015, there were no ongoing IRS examinations. Although Kforce has not experienced any material liabilities in the past due to income tax audits, Kforce can make no assurances concerning any future income tax audits.

Employment Agreements

Kforce has entered into employment agreements with certain executives that provide for minimum compensation, salary and continuation of certain benefits for a six-month to a three-year period after their employment ends under certain circumstances. Certain of the agreements also provide for a severance payment of one to three times annual salary and one-half to three times average annual bonus if such an agreement is terminated without good cause by Kforce or for good reason by the executive. These agreements contain certain post-employment restrictive covenants. Kforce's liability at December 31, 2016 would be approximately $43.6 million if, following a change in control, all of the executives under contract were terminated without good cause by the employer or if the executives resigned for good reason and $17.6 million if, in the absence of a change in control, all of the executives under contract were terminated by Kforce without good cause or if the executives resigned for good reason.

Kforce has not recorded any liability related to the employment agreements as no events have occurred that would require payment under the agreements.

13. REPORTABLE SEGMENTS

Kforce's reportable segments are as follows: (1) Tech; (2) FA; and (3) GS. This determination is supported by, among other factors: the existence of individuals responsible for the operations of each segment and who also report directly to our chief operating decision maker ("CODM"), the nature of the segment's operations and information presented to Kforce's Board and our CODM. Kforce also reports Flex and Direct Hire revenues separately by segment, which has been incorporated into the table below. The following information for the year ended December 31, 2014 has been updated to reflect the disposition of HIM, for which all revenues and gross profit associated with the discontinued operations have been recorded within Income from discontinued operations, net of taxes, in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Historically, and for the year ended December 31, 2016, Kforce has generated only sales and gross profit information on a segment basis. Substantially all operations and long-lived assets are located in the U.S. We do not report total assets or income from continuing operations separately by segment as our operations are largely combined.

The following table provides information concerning the operations of our segments for the years ended December 31 (in thousands):

	Tech	FA	GS	Total
2016				
Net service revenues				
Flexible billings	**$863,434**	**$307,245**	**$98,628**	**$1,269,307**
Direct Hire fees	**20,043**	**30,356**	**—**	**50,399**
Total net service revenues	**$883,477**	**$337,601**	**$98,628**	**$1,319,706**
Gross profit	**$255,842**	**$120,551**	**$32,106**	**$ 408,499**
Operating expenses				**352,544**
Income from continuing operations, before income taxes				**$ 55,955**
2015				
Net service revenues				
Flexible billings	$873,609	$294,186	$97,372	$1,265,167
Direct Hire fees	22,333	31,738	—	54,071
Total net service revenues	$895,942	$325,924	$97,372	$1,319,238
Gross profit	$261,721	$119,036	$33,357	$ 414,114
Operating expenses				342,442
Income from continuing operations, before income taxes				$ 71,672
2014				
Net service revenues				
Flexible billings	$823,311	$249,274	$98,051	$1,170,636
Direct Hire fees	19,158	27,537	—	46,695
Total net service revenues	$842,469	$276,811	$98,051	$1,217,331
Gross profit	$243,085	$101,071	$30,425	$ 374,581
Operating expenses				326,624
Income from continuing operations, before income taxes				$ 47,957

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table provides quarterly information for the years ended December 31, 2016 and 2015 (in thousands, except per share amounts):

Three Months Ended	March 31,	June 30,	Sept. 30,	Dec. 31,
2016				
Net service revenues	**$322,201**	**$335,047**	**$336,460**	**$325,998**
Gross profit	**97,189**	**106,282**	**105,380**	**99,648**
Net income	**3,650**	**10,864**	**9,020**	**9,239**
Earnings per share—basic	**$0.14**	**$0.41**	**$0.35**	**$0.36**
Earnings per share—diluted	**$0.14**	**$0.41**	**$0.34**	**$0.36**
2015				
Net service revenues	$312,611	$337,353	$341,575	$327,699
Gross profit	94,740	106,038	109,821	103,515
Net income	5,785	11,593	13,545	11,901
Earnings per share—basic	$0.20	$0.41	$0.49	$0.43
Earnings per share—diluted	$0.20	$0.41	$0.48	$0.43

15. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows for the year ended December 31 (in thousands):

	2016	2015	2014
Cash paid during the period for:			
Income taxes, net	**$21,324**	$25,395	$52,565
Interest, net	**$ 2,101**	$ 1,609	$ 1,048
Non-Cash Transaction Information:			
Shares tendered in payment of exercise price of stock options	**$ 63**	$ —	$ 84
Employee stock purchase plan	**$ 669**	$ 578	$ 699
Equipment acquired under capital leases	**$ 1,153**	$ 1,470	$ 313
Unsettled repurchases of common stock	**$ 935**	$ 1,012	$ 1,425
Acquisition of fixed assets through accounts payable	**$ 12**	$ 41	$ 19
Contingent consideration for acquisition	**$ —**	$ —	$ 477

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CORPORATE INFORMATION

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Joseph J. Liberatore
President

David M. Kelly
Chief Financial Officer
and Secretary

Kye L. Mitchell
Chief Operations Officer

Michael R. Blackman
Chief Corporate Development Officer

Robert W. Edmund
Chief Legal and Compliance Officer,
and Assistant Secretary

CORPORATE COUNSEL

Holland & Knight LLP
Tampa, Florida

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Tampa, Florida

TRANSFER AGENT

Computershare Trust Company, N.A.
PO Box 43078
Providence, RI 02940-3078
www.computershare.com
Shareholder Inquiries:
1 (877) 282-1168

FORM 10-K AVAILABLE

A copy of the Kforce Inc.'s Annual Report on Form 10-K (excluding exhibits thereto) is available to any investor without charge upon written request to:

Michael R. Blackman
Chief Corporate Development Officer
Kforce Inc.
1001 East Palm Avenue
Tampa, Florida 33605

Or call Investor Relations:
1 (813) 552-2927.

ANNUAL MEETING

The annual meeting of shareholders will be held on April 18, 2017 at 8:00 a.m. at Kforce Inc. headquarters in Tampa, Florida.

WEBSITE INFORMATION

For a comprehensive profile of Kforce Inc., visit the Firm's website at: www.kforce.com.

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KFORCE—63 TOTAL OFFICES TO SERVE YOU.

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Corporate Headquarters: 1001 East Palm Avenue, Tampa, Florida 33605, (813) 552-5000

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Woodland Hills

COLORADO
Greenwood Village (Denver)

CONNECTICUT
East Hartford
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FLORIDA
Doral (Miami)
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