KFORCE®

Annual Report 2017

Great People = Great Results℠

KFORCE® is an award-winning professional staffing services firm that provides strategic partnership in the areas of Technology and Finance & Accounting. Our name stands for KnowledgeForce® which describes the experience we have gained since 1962 and the 36,000 highly skilled professionals we engage annually. The customer-centric Kforce Knowledge Staffing Process[sm] allows for high-touch, relationship-driven results backed by progressive technologies. Each year, our network of 60 offices with two national recruiting centers provides opportunities across 4,000 companies, including 70% of the Fortune 100. At Kforce, *We love what we do. We love who we serve.®*

TECHNOLOGY

As the 5th largest technology staffing firm in the U.S., we engage more than 15,000 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 4th 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, 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:

- **GS** 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 "Cautionary Note Regarding Forward-Looking Statements" contained in the introductory portion of our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information regarding forward looking statements.

The total shareholder return on our stock has been 695%, outperforming the Russell 2000 Index, which has returned 411% over the same period.

Kforce stock performance vs. Russell 2000 from 8/15/95 (IPO) to 12/31/17

TO OUR FELLOW SHAREHOLDERS, CLIENTS, CONSULTANTS AND EMPLOYEES:

We began 2017 following a period of significant transition. Our newly enhanced sales transformation initiative was underway allowing our sales associates to engage in more strategic conversations and shape solutions with our clients. We initiated the implementation of our new Customer Relationship Management (CRM) system and crystallized our customer segmentation strategy. While revenue growth heading into 2017 was flat, we were confident in our course of action and are pleased that we made significant progress throughout 2017 as demonstrated by the revenue growth we experienced in the second half of 2017. While Fortune 1000 continue to be the largest buyers of our services, we are encouraged that client opportunities outside of our largest clients accounted for the greatest share of our growth in the second half of 2017. These large clients continue to concentrate spend with partners, such as Kforce, that can meet their needs nationally as well as ensure compliance with their internal and external policies and regulations. We believe that our continued focus within growing industry verticals should allow us to expand the breadth of our service offerings to deepen our relationships with these larger, sophisticated buyers. This strategy is particularly well supported by our mature centralized delivery platform, which allows us to efficiently deliver consultants at scale across the U.S. including locations where we do not have a physical presence. This capability, combined with improved execution and focus in our field offices, has allowed us to increase productivity levels as we begin to see results from our sales transformation and streamlining our field operations. We completed our CRM implementation in late 2017 and expect to see additional efficiencies generated by this program as well as our other technology investments going forward.

The demand environment for our services, particularly within our largest service line, Tech Flex, appears to be very strong with the potential for continued improvement. The U.S. economy continues to improve and strengthen, as reflected by improving GDP growth over recent quarters. The new administration appears to have made it a priority to reduce complex and costly regulations. The recent passage of the Tax Cuts and Jobs Act has created a renewed sense of optimism which we anticipate may translate into increased investment plans, particularly in technology, and it should give new life and energy to the economic cycle and continued growth. We believe companies continue to look increasingly to temporary labor suppliers like Kforce to meet their human capital needs. This is evidenced by another near all-time high in December 2017 of the temporary penetration rate.

Skilled technology talent continues to be in high demand with the prospect of tightening of immigration standards exacerbating already tight supply. We believe the secular drivers of technology spend is accelerating as many companies are becoming increasingly dependent on the efficiencies provided by technology to sustain relevancy with their customers in today's digitally driven marketplace. Technology investments, mobility, cloud computing, cyber security, 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. Over the past year, some of the largest companies in the world publicly announced significant increases in their technology budgets to improve the experience of their customers and to meet the ever-growing risks of cyber security. In addition, heightened scrutiny and uncertainty 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 a national footprint and robust compliance infrastructures as their solution of choice for human capital.

Turning now to our 2017 results, we want to recognize the efforts of our team for what has been a year of great progress while at the same time managing great change. Kforce reported annual revenues of $1.36 billion in 2017, which was an increase of 2.9% as compared to 2016. Net income for the year ended December 31, 2017 was $33.3 million, or $1.30 per share, which represented an increase of 1.6%, or 4.0% per share, compared to 2016. During the year, we returned a total of $24.3 million in capital to our shareholders in the form of $12.2 million in open market share repurchases and $12.1 million in dividends. During 2017, we experienced year-over-year growth in seven of our top ten industry verticals. Communications, computer manufacturing and transportation each performed particularly well, in addition to certain professional services and solutions companies supporting the Federal Government.

Revenue by Service Line

- Revenues for our largest business, Tech Flex, of $887.7 million represented 65.4% of our total net service revenues. Tech Flex revenues increased 2.8% in 2017 over 2016. We began to see improvements in sequential revenue trends coming out of the summer months and experienced a 5.4% year-over-year increase on a billing day basis in the fourth quarter. As we entered 2018, our activity levels within this unit 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 our ability to identify and deliver a high caliber of qualified and skilled technology talent and, given the high demand for technological resources, a trend by our clients to retain this scarce talent for longer periods.

- Revenues for our FA Flex business of $318.3 million represented 23.4% of our total net service revenues. FA Flex revenues increased 3.6% in 2017 over 2016. We continue to see demand from clients for FA talent as their businesses grow. From an industry perspective, we saw strength in business services, retail and insurance institutions.

- Revenues for our GS business of $104.3 million represented 7.7% of our total net service revenues. GS revenues increased 5.7% in 2017 compared to 2016. 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. Our GS management team has worked diligently over the last several years to shift their business development and capture management efforts towards securing prime contracts and we are pleased with their progress. Exiting 2017, GS derived 53% of revenues from work as a prime contractor compared to 45% in 2016. We are particularly pleased with our opportunity under two prime contract awards which are expected to deliver close to $100 million in revenue over the next five years. We continue to believe that these prime contract wins can serve to increasingly build a solid, more profitable, revenue base moving forward.

- Direct Hire revenues of $47.7 million represented 3.5% of our total net service revenues. Direct Hire revenues decreased 5.4% in 2017 over 2016. 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.

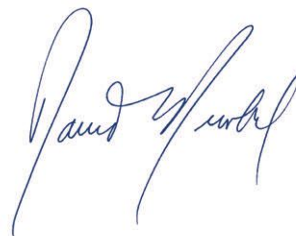
As we head into 2018, we believe the actions we've taken over the past year, and continue to build on, have laid a solid foundation for strong revenue growth rates and improved profitability. After the passage of the Tax Cuts and Jobs Act, we expect that our effective tax rate will be in the range of 25.5% to 27.5% for 2018, which we expect will result in an additional $10 million in operating cash in 2018. Our plan for 2018 also contemplates continued technology investments that we expect will improve the productivity of our associates and position us to better serve our clients, consultants and candidates.

We believe we remain well positioned to maximize our market opportunities and achieve our near and long-term goals. Based on current trends, we expect to achieve our operating margin commitment of 6.3% at $1.4 billion in annualized revenue by the second quarter of 2018 and remain on track to reach an operating margin of 7.5% at $1.6 billion in annualized revenue. We continue to be focused on embracing technology by making targeted investments in training, technology and other tools to enhance our customer experience and relationships in addition to enabling our talent associates to be more productive.

Stewardship

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 2017, Kforce employees spent approximately 16,000 hours supporting more than 130 charities nationwide. More importantly, the hearts of our associates were on full display through our pledge of up to $1 million in support of recovery efforts from the devastation caused by Hurricanes Harvey and Irma. Stewardship and community is a Kforce core value, and we could not be prouder of our team.

We are very optimistic about our prospects in 2018 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,	**2017(1)**	2016(2)	2015	2014(3)	2013(3)(4)(5)
(In thousands, except per share amounts)					
Net service revenues	**$1,357,940**	$1,319,706	$1,319,238	$1,217,331	$1,073,728
Gross profit	**408,056**	408,499	414,114	374,581	344,376
Selling, general and administrative expenses	**331,172**	340,742	330,034	314,966	307,339
Goodwill impairment	**—**	—	—	—	14,510
Depreciation and amortization	**8,255**	8,701	9,831	9,894	9,846
Other expense, net	**4,535**	3,101	2,577	1,764	1,752
Income from continuing operations, before income taxes	**64,094**	55,955	71,672	47,957	10,929
Income tax expense	**30,809**	23,182	28,848	18,559	5,635
Income from continuing operations	**33,285**	32,773	42,824	29,398	5,294
Income from discontinued operations, net of tax	**—**	—	—	61,517	5,493
Net income	**$ 33,285**	$ 32,773	$ 42,824	$ 90,915	$ 10,787
Earnings per share—basic, continuing operations	**$1.32**	$1.26	$1.53	$0.94	$0.16
Earnings per share—diluted, continuing operations	**$1.30**	$1.25	$1.52	$0.93	$0.16
Earnings per share—basic	**$1.32**	$1.26	$1.53	$2.89	$0.32
Earnings per share—diluted	**$1.30**	$1.25	$1.52	$2.87	$0.32
Weighted average shares outstanding—basic	**25,222**	26,099	27,910	31,475	33,511
Weighted average shares outstanding—diluted	**25,586**	26,274	28,190	31,691	33,643
Dividends declared per share	**$0.48**	$0.48	$0.45	$0.41	$0.10

As of December 31,	**2017**	2016	2015	2014	2013
(In thousands)					
Working capital	**$ 161,726**	$ 135,353	$ 122,270	$ 125,246	$ 108,251
Total assets	**$ 384,304**	$ 365,421	$ 351,822	$ 363,922	$ 347,768
Total outstanding borrowings on credit facility	**$ 116,523**	$ 111,547	$ 80,472	$ 93,333	$ 62,642
Total long-term liabilities	**$ 166,308**	$ 160,332	$ 124,449	$ 130,351	$ 100,562
Stockholders' equity	**$ 134,277**	$ 121,736	$ 139,627	$ 139,388	$ 157,233

(1) The Tax Cuts and Jobs Act (TCJA) was enacted in December 2017, which reduces the U.S. federal corporate tax rate from 35.0% to 21.0% beginning in 2018. As a result, we revalued our net deferred income tax assets and recorded $5.4 million of additional income tax expense during the year ended December 31, 2017.

(2) During 2016, Kforce incurred approximately $6.0 million in severance costs associated with realignment activities focused on further streamlining our organization which were recorded in selling, general and administrative expense (SG&A).

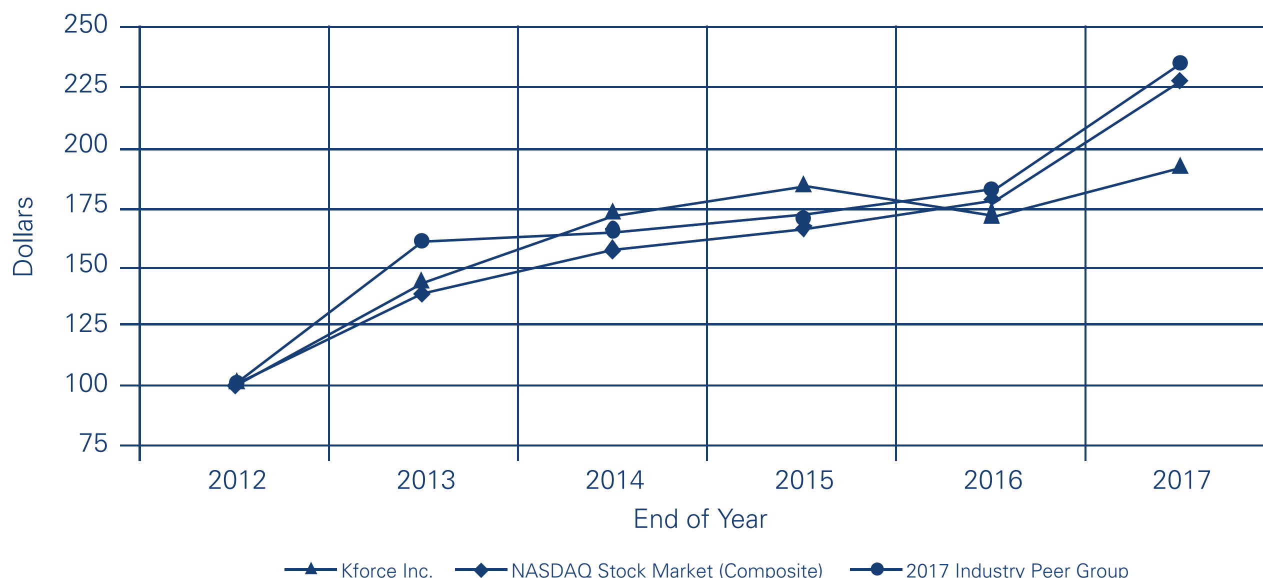
(3) During 2014, Kforce disposed of Kforce Healthcare, Inc. ("KHI"), a wholly-owned subsidiary of Kforce Inc. The results of operations for KHI have been presented as discontinued operations for the years ended December 31, 2014 and 2013.

(4) Kforce recognized a $14.5 million goodwill impairment charge 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.

(5) During 2013, Kforce commenced a plan to streamline its structure through an organizational realignment and incurred severance and termination-related expenses of $7.1 million which were recorded within SG&A. In connection with the realignment and succession planning, the Kforce's Compensation Committee approved discretionary bonuses of $3.6 million paid to a broad group of senior management during the fourth quarter of 2013.

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 2017 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, 2012 to December 31, 2017) by the price of Kforce common stock at the beginning of the measurement period. Cumulative total returns for Kforce, the 2017 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, 2012, 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 2017 Industry Peer Group.



Investment of $100 on December 31, 2012	2012	2013	2014	2015	2016	2017
Kforce Inc.	100.0	143.4	172.4	184.0	172.2	192.7
NASDAQ Stock Market (Composite)	100.0	138.3	156.8	165.8	178.3	228.6
2017 Industry Peer Group (1)	100.0	161.3	165.1	171.6	182.4	235.1

(1) Our 2016 Industry Peer Group included CDI Corporation which was acquired by another company during 2017 and has been excluded from our 2017 Industry Peer Group.

2017 Industry Peer Group:

Computer Task Group Inc.
Kelly Services, Inc.
Manpower 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 that are 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. A report published by Staffing Industry Analysts in 2017 indicated that 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 we operate, other primary criteria for peer group selection includes customers, revenue footprint (i.e., revenue derived from different industries as a percentage of total revenue), geographical presence, talent, 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.

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 (NASDAQ) 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. 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,
2017				
High	**$26.95**	**$24.30**	**$20.65**	**$26.75**
Low	**$21.28**	**$17.45**	**$16.75**	**$19.10**
2016				
High	$25.00	$20.40	$20.55	$24.25
Low	$14.87	$15.78	$16.22	$15.95

From January 1, 2018 through February 21, 2018, the high and low intra-day sales price of our common stock was $28.94 and $23.80 respectively. On February 21, 2018, the last reported sale price of our common stock on the NASDAQ was $28.20 per share.

Holders of Common Stock

As of February 21, 2018, there were approximately 158 holders of record.

Dividends

Kforce's Board of Directors (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.

During the years ended December 31, 2017 and 2016, Kforce declared and paid a dividend of $0.12 in each quarter for all outstanding shares of common stock. 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 current and expected 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, 2017, we had $116.5 million outstanding under our credit facility. See Note 8—"Credit Facility" in the Notes to Consolidated Financial Statements, included in this Annual Report, for further details on our credit facility. A hypothetical 10% increase in interest rates on variable debt in effect at December 31, 2017 would have an increase to annual interest expense of less than $0.4 million.

On April 21, 2017, Kforce entered into a forward-starting interest rate swap agreement with Wells Fargo Bank, N.A. to mitigate the risk of rising interest rates on the Firm's financial statements. The Swap rate is 1.81%, which is added to our interest rate margin to determine the fixed rate that the Firm will pay to the counterparty during the term of the Swap based on the notional amount of the Swap. The effective date of the Swap is May 31, 2017 and the maturity date is April 29, 2022. The notional amount of the Swap is $65.0 million for the first three years and decreases to $25.0 million for years four and five.

Company Overview

Kforce Inc. and its subsidiaries (collectively, "Kforce") provide professional staffing services and solutions to clients through the following segments: Technology ("Tech"), Finance and Accounting ("FA"), and Government Solutions ("GS"). Kforce provides staffing services and solutions on both a temporary ("Flex") and permanent ("Direct Hire") basis. We operate through our corporate headquarters in Tampa, Florida and 59 field offices located throughout the U.S. Kforce was incorporated in 1994 but its predecessor companies have been providing staffing services since 1962. Kforce completed its Initial Public Offering in August 1995.

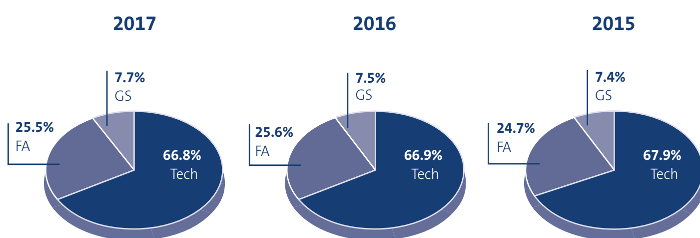
Kforce serves clients across many industries, geographies and our clients range in size from small to mid-sized companies to the largest companies in the Fortune 1000. We also provide services and solutions to the Federal Government as well as state and local governments, as a prime contractor and subcontractor. For perspective, our 10 largest clients represented approximately 25% of revenues and no single client accounted for more than 6% of revenues for the year ended December 31, 2017.

Substantially all of our revenues are derived from U.S. domestic operations. Kforce Global Solutions, Inc., ("Global") a wholly-owned subsidiary located in the Philippines, has historically contributed approximately 1% of net service revenues and was included in our Tech segment. In September 2017, we completed the sale of Global's assets. This sale did not meet the definition of discontinued operations.

Our periodic operating results can be affected by:

- the number of billing days in a particular quarter,
- seasonality in our clients' businesses,
- increased holidays and vacation days taken, which is usually highest in the fourth quarter of each calendar year, and
- increased costs as a result of certain annual U.S. state and federal employment tax resets that occur at the beginning of each calendar year, which negatively impacts our gross profit and overall profitability in the first fiscal quarter of each calendar year.

The following charts depict the percentage of our total revenues for each of our segments for the years ended December 31, 2017, 2016 and 2015:



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

Tech Segment

Our largest segment, Tech, provides both Flex and Direct Hire 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, artificial intelligence, machine learning, network architecture and security. Within our Tech segment, we provide service to clients in a variety of industries with a strong footprint in the financial services, communications, insurance services and government sectors. Revenues for our Tech segment increased 2.7% to $907.5 million in 2017 with quarterly growth rates accelerating in the second half of 2017 on a year-over-year basis. The average bill rate for our Tech segment in the fourth quarter of 2017 (after the sale of Global's assets was completed) was approximately $72 per hour. The September 2017 report published by Staffing Industry Analysts ("SIA") stated that temporary technology staffing is expected to experience growth of 4% in 2018. We believe that the secular drivers of technology spend remain intact with many companies increasingly looking to technology investments to improve internal efficiencies, enhance their customer-facing applications in support of their business strategies and to sustain relevancy in the rapidly changing marketplace. At the macro level, demand is also being driven by an ever-changing and complex corporate regulatory and employment law environment, which increases the overall cost of employment for companies. These factors, among others, are continuing to drive companies to look to temporary staffing providers, such as Kforce, to meet their human capital needs.

An acute challenge within our Tech business is the scarcity of qualified consultants, especially in certain niche skillsets such as cybersecurity, business intelligence, and application developers with less common programming languages.

FA Segment

Our FA segment provides both Flex and Direct Hire 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. Within our FA segment, we provide services 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 2.5% to $346.1 million in 2017 though our growth rates in this segment decelerated in the second half of 2017 on a year-over-year basis as a result of certain client headwinds and large project ends. The average bill rate for our FA segment during 2017 was approximately $33 per hour. The September 2017 report published by SIA stated that finance and accounting temporary staffing is expected to experience growth of 5% in 2018.

While there are some new technical accounting standards and other factors that could result in some macro demand in FA temporary staffing providers, we believe that the relative limited demand stimuli present in the traditional areas of finance and accounting may temper future growth. However, we also believe there continues to be significant demand in outsourced functional support areas, which could result in larger volume opportunities for the Firm.

GS Segment

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. GS offers integrated business solutions to its clients in areas including but not limited to: information technology infrastructure transformation, healthcare informatics, data and knowledge management and analytics, research and development, audit readiness, financial management and accounting. This segment's contracts are concentrated among clients, such as the U.S. Department of Veteran Affairs, and the types of services and support that have historically been less likely to be impacted by sequestration threats and budget constraints, though a prolonged government shutdown would be expected to negatively impact GS revenues. Revenues for our GS segment increased 5.7% to $104.3 million in 2017. Our GS segment also includes a product-based business specialized in manufacturing and delivering trauma-training manikins, which accounted for approximately 12% of total GS revenues in 2017. The majority of GS services are supplied to the Federal Government (or through a prime contractor to the Federal Government) through field offices located in the Washington, D.C. metropolitan area and San Antonio and Austin, Texas.

Our backlog represents only those contracts for which funding has been provided for U.S. government contracts and subcontracts, excluding renewal option years. Our backlog was $59.3 million as of December 31, 2017 as compared to $42.9 million as of December 31, 2016.

Flex Revenues

Flex revenues have represented approximately 96% of total revenues over the last three fiscal years. 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 utilize a diversified set of recruitment platforms to identify consultants including traditional job boards (both general and niche in nature), Kforce.com, social media sites and passive candidate marketing, where we identify individuals who are currently employed and not actively seeking another position. These consultants can either 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 experience and capabilities of the consultants being recruited; and (3) ensure excellence in delivering and managing the client-consultant relationship. We believe proper execution by our associates and 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.

To gauge our success in providing quality service and support to our clients and consultants, we monitor our client and consultant net promoter scores, which is conducted by an independent third-party provider.

Flex revenues are driven by the number of consultant assignments, total consultant hours billed and pre-established bill rates. Our 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 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 associates.

Direct Hire Revenues

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

Direct Hire revenues are driven by the number of candidates placed (or converted) and the associated placement fees and are recognized net of an allowance for "fallouts," which occur when candidates do not complete the applicable contingency period (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. A report published by SIA in 2017 indicated that Kforce is one of the 10 largest publicly-traded specialty staffing firms in the U.S.

Based upon previous economic cycles experienced by Kforce, we believe that times of sustained economic recovery generally stimulate demand for additional temporary workers in the U.S. and, conversely, an economic slowdown results in a contraction in demand for additional temporary workers in the U.S. From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, which continued to be positive during 2017, based on data published by the Bureau of Labor Statistics ("BLS") and SIA. The penetration rate (the percentage of temporary staffing to total employment) remained at a record high of 2.1% in December 2017. The unemployment rate was 4.1% as of December 2017 and a total non-farm payroll of approximately 148,000 jobs were added in December 2017. Additionally, the college-level unemployment rate, which we believe serves as a reasonable proxy for professional employment and, as such, is a good data point for the consultant and candidate population that Kforce most typically serves, was at 2.1% in December 2017. 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 overall tepid growth experienced in the U.S. economy during this recovery (despite recent acceleration in GDP growth), 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 the total workforce as employers may be reluctant to increase permanent hiring. If the penetration rate of temporary staffing grows in the coming months and years, we believe our Flex revenues can continue to 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 uncertainty and volatility and therefore no reliable predictions can be made about the general economy, the staffing industry as a whole, specialty staffing in particular or our future performance.

According to a U.S. Staffing Industry Forecast published by SIA in September 2017, the technology temporary staffing industry and finance and accounting temporary staffing industry are expected to generate projected revenues of $30.9 billion and $8.4 billion, respectively, in 2018 and based on these projected revenues, our market share is approximately 3% and 4%, respectively. Our business strategies are sharply focused around expanding our share of the U.S. temporary staffing industry and further penetrating our existing clients' human capital needs.

Business Strategies

Our primary objective is to drive long-term shareholder value by achieving above-market revenue growth, making prudent investments to enhance our operating model in terms of efficiency and effectiveness and generating significantly improved levels of operating profitability. We believe the following strategies will help us achieve our objectives.

Improving Productivity of our Talent. We continue to focus on providing our associates with the necessary tools to be more effective and efficient in performing their roles, to better evaluate business opportunities and to allow us to elevate the value we bring to our clients and consultants. In the fourth quarter of 2016, we made a significant investment to enhance our sales methodologies and processes to allow us to better evaluate and shape business opportunities with our clients as well as train our sales associates on this consistent and uniform methodology. Since making this investment, we have been focused on conducting appropriate activities to seek to ensure sustainment of this methodology. We are also implementing new and upgrading existing technologies that we expect should allow us to serve our clients, consultants and candidates more effectively and efficiently and improve the productivity and scalability of our organization. To that end, in the third quarter of 2017, we completed the deployment of our new client relationship management system, which has the elements of our sales methodology embedded within the application.

We have been investing in other areas of technological change including new time and expense applications for our consultants and associates, as well as continued enhancements to our business and data intelligence capabilities. Beginning in 2018, we expect to invest in a new talent relationship management system to leverage our delivery strategies and processes. These investments are part of a multi-year effort to replace and upgrade our technology tools to equip our associates with improved capabilities to deliver exceptional service to our clients, consultants and candidates and improve the productivity of our associates.

Enhancing our Client Relationships. We strive to differentiate ourselves by working collaboratively with our clients to understand their business challenges and help them attain their organizational objectives. This collaboration focuses on building a consultative partnership rather than a transactional client relationship; thus, increasing the intimacy with our clients and improving our ability to offer higher value and a broader array of services and support to our clients. In order to accomplish this, we align our revenue-generating talent with the appropriate clients based on their experience with markets, products and industries.

We measure our success in building long-lasting relationships with our clients using staffing industry benchmarks and surveys conducted by a specialized, independent third-party provider. Our client ratings compare very favorably against staffing industry averages and give us helpful insights directly from our clients on how to continue improving our relationships. We believe long-lasting relationships with our clients is a critical element to our ability to grow revenues.

Improving the Job Seeker Experience. Our consultants are a critical component to our business and essential in sustaining our client relationships. We are focused on effective and efficient processes and tools to find and attract prospective consultants, matching them to a client assignment and supporting them during their tenure with Kforce. Our success in this regard would be expected to positively influence 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.

We measure the quality of our service to and support of our consultants using staffing industry benchmarks and surveys conducted by a specialized, independent third-party provider. Our consultant ratings, similar to our client ratings, compare very favorably against staffing industry averages and give us helpful insights directly from our consultants on where and how we can continue improving our service during the various phases of our relationship.

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 2017.
- *Results of Operations*—An analysis of Kforce's consolidated results of operations for the three years presented in the 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, credit facility, off-balance sheet arrangements, stock repurchases, contractual obligations and commitments.
- *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 the potential impact on our consolidated financial statements.

EXECUTIVE SUMMARY

The following is an executive summary of what Kforce believes are highlights for 2017, 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 increased 2.9% to $1.36 billion in 2017 from $1.32 billion in 2016. Net service revenues increased 2.7% for Tech, 2.5% for FA and 5.7% for GS.
- Flex revenues increased 3.2% to $1.31 billion in 2017 from $1.27 billion in 2016. Flex revenues increased 2.8%, 3.6% and 5.7% for Tech, FA and GS, respectively. Quarterly year-over-year growth rates in Tech Flex, our largest segment, accelerated in the second half of 2017.
- Direct Hire revenues decreased 5.4% to $47.7 million in 2017 from $50.4 million in 2016.
- Flex gross profit margin decreased 70 basis points to 27.5% in 2017 from 28.2% in 2016. Flex gross profit margin decreased 60 basis points for Tech, 90 basis points for FA and 150 basis points for GS. These margin decreases were primarily a result of compression in the spread between our bill rates and pay rates, higher health insurance costs and the impact of Hurricanes Harvey and Irma. In the second half of 2017, we made progress in partially mitigating the spread compression we experienced in the first half of 2017 through increased pricing discipline and other operational programs.
- SG&A expenses as a percentage of revenues for the year ended December 31, 2017 decreased to 24.4% from 25.8% in 2016. The 140 basis point decrease was driven primarily by $6.0 million in severance costs recognized in 2016 related to realignment activities, improving associate productivity levels in 2017 and overall continued discipline in areas such as travel and office related expenses. These benefits were partially offset by an increase in information technology investments.
- Additionally, during 2017, Kforce completed the sale of Global's assets and recorded a $3.3 million gain within SG&A. Prior to the sale, Global generated approximately $2.5 million in Tech Flex revenue per quarter.
- Net income for the year ended December 31, 2017 increased 1.6% to $33.3 million from $32.8 million in 2016 and diluted earnings per share for the year ended December 31, 2017 increased to $1.30 from $1.25 per share in 2016, primarily driven by the SG&A items described above.
- During 2017, Kforce repurchased 526 thousand shares of common stock on the open market at a total cost of approximately $12.2 million.
- The Firm declared and paid dividends totaling $0.48 per share during the year ended December 31, 2017, resulting in a total cash payout of $12.1 million.
- The Firm entered into a new credit facility on May 25, 2017, which, among other things, increased our borrowing capacity by $130.0 million to $300.0 million. The total amount outstanding under the credit facility increased $5.0 million to $116.5 million as of December 31, 2017 as compared to $111.5 million as of December 31, 2016. This increase was primarily driven by lower than anticipated operating cash flows as a result of an increase in accounts receivable due to our revenue growth, timing of collections and certain clients extending payment terms.
- The Firm entered into a forward-starting interest rate swap agreement on April 21, 2017 to mitigate the risk of rising interest rates. The notional amount of the interest rate swap (the "Swap") is $65.0 million for the first three years and decreases to $25.0 million for years four and five. The fair value of our Swap as of December 31, 2017 was a $0.5 million asset.

RESULTS OF OPERATIONS

In 2017, we continued to make progress on our strategic initiatives including:

- Implementing new and upgrading existing technologies that we believe will allow us to more effectively and efficiently serve our clients, consultants and candidates and improve the productivity of our people and scalability of our organization. We completed the deployment of our new customer relationship management system during 2017 and made significant progress towards the implementation of other technology initiatives related to our consultant time and expense management process, associate expense reimbursement, business and data intelligence applications among other areas, which we expect to benefit us in 2018 and beyond. We also laid the foundation during 2017 for future technology initiatives.

- Continuing to align our revenue-generating talent to the markets, products, industries and clients that we believe present Kforce with the greatest opportunity for profitable revenue growth. During 2017, we further optimized the alignment of our revenue-generating and revenue-enabling organizations to enhance our efficiency and effectiveness in serving our clients, consultants and candidates. We also conducted sustainment activities related to our enhanced sales methodology that was rolled out in the fourth quarter of 2016.

During the third quarter of 2017, our results of operation were adversely impacted by Hurricanes Harvey and Irma and, more importantly, the devastation felt by our associates, clients and consultants was significant. We made the decision to prioritize the care and safety of our core associates and consultants by continuing to compensate them while our clients were closed and provided additional support for those with more critical needs. We also more broadly supported the recovery efforts with a pledge of $1.0 million in charitable contributions to support these efforts. The combined impact to our earnings per share was $0.04 during 2017.

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

December 31,	**2017**	2016	2015
Revenues by segment:			
Tech	**66.8%**	66.9%	67.9%
FA	**25.5**	25.6	24.7
GS	**7.7**	7.5	7.4
Net service revenues	**100.0%**	100.0%	100.0%
Revenues by type:			
Flex	**96.5%**	96.2%	95.9%
Direct Hire	**3.5**	3.8	4.0%
Net service revenues	**100.0%**	100.0%	100.0%
Gross profit	**30.0%**	31.0%	31.4%
Selling, general and administrative expenses	**24.4%**	25.8%	25.0%
Depreciation and amortization	**0.6%**	0.7%	0.7%
Income from operations	**5.1%**	4.5%	5.6%
Income before income taxes	**4.7%**	4.2%	5.4%
Net income	**2.5%**	2.5%	3.2%

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):

	2017	Increase (Decrease)	2016	Increase (Decrease)	2015
Tech revenues					
Flex revenues	**$ 887,675**	**2.8%**	$ 863,434	(1.2)%	$ 873,609
Direct Hire revenues	**19,836**	**(1.0)%**	20,043	(10.3)%	22,333
Total Tech revenues	**$ 907,511**	**2.7%**	$ 883,477	(1.4)%	$ 895,942
FA revenues					
Flex revenues	**$ 318,294**	**3.6%**	$ 307,245	4.4%	$ 294,186
Direct Hire revenues	**27,841**	**(8.3)%**	30,356	(4.4)%	31,738
Total FA revenues	**$ 346,135**	**2.5%**	$ 337,601	3.6%	$ 325,924
GS revenues					
Flex revenues	**$ 104,294**	**5.7%**	$ 98,628	1.3%	$ 97,372
Total GS revenues	**$ 104,294**	**5.7%**	$ 98,628	1.3%	$ 97,372
Total Flex revenues	**$1,310,263**	**3.2%**	$1,269,307	0.3%	$1,265,167
Total Direct Hire revenues	**47,677**	**(5.4)%**	50,399	(6.8)%	54,071
Total Net service revenues	**$1,357,940**	**2.9%**	$1,319,706	—%	$1,319,238

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. The following 2017 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 Revenue Growth Rates (Per Billng Day)	Revenues	Year-Over-Year Revenue Growth Rates (Per Billng Day)	Revenues	Year-Over-Year Revenue Growth Rates (Per Billng Day)	Revenues	Year-Over-Year Revenue Growth Rates (Per Billng Day)
Flex revenues								
Tech	**$223,897**	**5.4%**	**$224,148**	**3.3%**	**$222,744**	**1.5%**	**$216,886**	**2.7%**
FA	**79,098**	**0.3%**	**78,209**	**4.1%**	**80,038**	**4.3%**	**80,949**	**7.5%**
GS	**29,421**	**25.7%**	**26,547**	**0.6%**	**23,674**	**(6.4)%**	**24,652**	**6.6%**
Total Flex revenues	**$332,416**	**5.6%**	**$328,904**	**3.3%**	**$326,456**	**1.6%**	**$322,487**	**4.2%**
Direct Hire revenues								
Tech	**$ 3,919**	**(10.3)%**	**$ 5,133**	**1.3%**	**$ 5,625**	**9.3%**	**$ 5,159**	**(4.1)%**
FA	**6,251**	**(9.6)%**	**7,016**	**(9.0)%**	**8,228**	**(2.4)%**	**6,346**	**(11.7)%**
Total Direct Hire revenues	**$ 10,170**	**(9.9)%**	**$ 12,149**	**(4.9)%**	**$ 13,853**	**2.1%**	**$ 11,505**	**(8.4)%**
Revenue by segment								
Tech	**$227,816**	**5.1%**	**$229,281**	**3.3%**	**$228,369**	**1.7%**	**$222,045**	**2.5%**
FA	**85,349**	**(0.5)%**	**85,225**	**2.9%**	**88,266**	**3.6%**	**87,295**	**5.8%**
GS	**29,421**	**25.7%**	**26,547**	**0.6%**	**23,674**	**(6.4)%**	**24,652**	**6.6%**
Total Net service revenues	**$342,586**	**5.1%**	**$341,053**	**3.0%**	**$340,309**	**1.6%**	**$333,992**	**3.7%**
Billing Days		**61**		**63**		**64**		**64**

Flex Revenues. The key drivers of Flex revenues are the number of consultants on assignment, number of billable hours, 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, increased 2.8% during the year ended December 31, 2017, as compared to 2016 and decreased 1.2% in 2016 from 2015. Our 2017 increase was driven by an acceleration of quarterly year-over-year growth rates in the second half of 2017, which we believe is a result of our strategic portfolio alignment efforts as well as the investments we have made in an effort to improve the productivity and effectiveness of our revenue-generating talent. We have been focused on diversifying our portfolio to grow revenues with other Fortune 500 companies outside of our top 25 largest clients; much of the revenue growth that we experienced in the second half of 2017 was a result of these efforts. Our belief in the strength in the demand environment within Tech Flex has not changed; thus, we expected continued growth in 2018 in this segment.

Our FA segment experienced an increase in Flex revenues of 3.6% during the year ended December 31, 2017, as compared to 2016 and increased 4.4% in 2016 from 2015. Over the last several years, we have seen greater opportunities from larger volume projects in centralized and partially outsourced functional areas such as benefits and enrollment support and other service and administrative functions as clients continue to evaluate their strategies for meeting their human capital needs. We expect our FA segment to grow on a year-over-year basis in 2018.

Our GS segment experienced an increase in Flex revenues of 5.7% during the year ended December 31, 2017, as compared to 2016 and increased 1.3% in 2016 from 2015. Our GS segment was awarded two prime contract wins in the third quarter of 2017 under the T4 Next Generation contract vehicle with the U.S. Department of Veterans Affairs totaling nearly $100 million. Revenues for GS grew approximately 25% on a year-over-year basis in the fourth quarter of 2017 primarily as a result of these prime contract wins. Our GS segment's largest contract is being recompeted by the prime contractor in the first quarter of 2018. Provided GS is successful at retaining this contract, we expect our GS segment should grow in the low double digits on a year-over-year basis in 2018.

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):

	2017		2016	
	Tech	**FA**	Tech	FA
Key Drivers				
Volume (hours billed)	**$ 9,710**	**$ 3,915**	$(10,115)	$15,198
Bill rate	**14,563**	**7,053**	896	(2,055)
Billable expenses	**(32)**	**81**	(956)	(84)
Total change in Flex revenues	**$24,241**	**$11,049**	$(10,175)	$13,059

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

	2017	**Increase (Decrease)**	2016	Increase (Decrease)	2015
Tech	**12,878**	**1.1%**	12,735	(1.2)%	12,885
FA	**9,595**	**1.3%**	9,474	5.2%	9,008
Total Flex hours billed	**22,473**	**1.2%**	22,209	1.4%	21,893

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

Direct Hire Revenues. The key drivers of Direct Hire revenues are the number of placements and the associated placement fee. Direct Hire revenues also include conversion revenues, which can occur when consultants initially assigned to a client on a temporary basis are later converted to a permanent placement for a fee. Our GS segment does not make permanent placements.

Direct Hire revenues decreased 5.4% during the year ended December 31, 2017 as compared to 2016 and decreased 6.8% in 2016 from 2015. The decrease for 2017 as compared to 2016 and 2016 as compared to 2015 is primarily the result of a shift in management's strategy to make selective investments only where capacity needs exist.

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):

	2017	2016
Key Drivers		
Volume (number of placements)	**$(3,084)**	$(2,476)
Placement fee	**362**	(1,196)
Total change in Direct Hire revenues	**$(2,722)**	$(3,672)

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

	2017	**Increase (Decrease)**	2016	Increase (Decrease)	2015
Tech	**1,139**	**(4.4)%**	1,191	(14.6)%	1,395
FA	**2,355**	**(7.0)%**	2,531	1.0%	2,505
Total number of placements	**3,494**	**(6.1)%**	3,722	(4.6)%	3,900

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:

	2017	**Increase (Decrease)**	2016	Increase (Decrease)	2015
Tech	**$17,410**	**3.4%**	$16,836	5.1%	$16,014
FA	**11,826**	**(1.4)%**	11,994	(5.3)%	12,668
Total average placement fee	**$13,646**	**0.8%**	$13,543	(2.3)%	$13,864

Gross Profit. Gross profit is determined by deducting the direct cost of services (primarily consultant compensation, payroll taxes, payroll-related insurance and certain fringe benefits, as well as subcontractor costs) from total 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 placement fee.

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

	2017	**Increase (Decrease)**	2016	Increase (Decrease)	2015
Tech	**28.3%**	**(2.4)%**	29.0%	(0.7)%	29.2%
FA	**34.2%**	**(4.2)%**	35.7%	(2.2)%	36.5%
GS	**31.1%**	**(4.6)%**	32.6%	(5.0)%	34.3%
Total gross profit percentage	**30.0%**	**(3.2)%**	31.0%	(1.3)%	31.4%

The change in total gross profit percentage for 2017 as compared to 2016 and 2016 as compared to 2015 is primarily the result of a lower mix of Direct Hire revenues to total revenues as well as declines in our Flex gross profit.

Our Flex gross profit percentage (Flex gross profit as a percentage of Flex revenues) provides management with helpful insight into the other drivers of total gross profit percentage driven by our Flex business such as changes in the spread between the consultants' 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:

	2017	**Increase (Decrease)**	2016	Increase (Decrease)	2015
Tech	**26.7%**	**(2.2)%**	27.3%	(0.4)%	27.4%
FA	**28.5%**	**(3.1)%**	29.4%	(1.0)%	29.7%
GS	**31.1%**	**(4.6)%**	32.6%	(5.0)%	34.3%
Total Flex gross profit percentage	**27.5%**	**(2.5)%**	28.2%	(1.1)%	28.5%

The decrease in Flex gross profit percentage of 70 basis points in 2017 from 2016 was due primarily to compression in the spread between our consultants' bill rates and pay rates and higher health insurance and other benefit costs, and the impact of Hurricanes Harvey and Irma. Kforce continues to focus on optimizing the spread between bill rates and pay rates by providing our associates with training and other defined programs to drive improvement in the effectiveness of our pricing strategy for our staffing services. The pricing environment for our services continues to be competitive and the scarcity of talent, especially in our Tech segment, continues to be a challenge. Thus, we expect that we may encounter wage inflation, especially in the skill sets of greatest demand, and will likely face spread compression as we work with our clients to increase our bill rates. With that said, many of our clients also lack pricing power in the conduct of their businesses; therefore, spreads on a longer-term basis may continue to be under pressure. As a result, our continued efforts toward pricing discipline and diligence will be important in mitigating this impact.

The decrease in Flex gross profit percentage of 30 basis points in 2016 from 2015 was due primarily to lower realized margins for our GS segment 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 their number of vendor partners and are leveraging volume-based rebates in exchange for this increased concentration of business.

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):

	2017	2016
Key Drivers		
Volume (hours billed)	**$11,708**	$ 1,178
Bill rate	**(9,429)**	(3,121)
Total change in Flex gross profit	**$ 2,279**	$(1,943)

SG&A Expenses. For the years ended December 31, 2017, 2016 and 2015, total compensation, commissions, payroll taxes, and benefit costs represented 84.8%, 84.0%, and 84.2% of SG&A, 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 certain components of SG&A as a percentage of total revenues for the years ended December 31 (in thousands):

	2017	**% of Revenues**	2016	% of Revenues	2015	% of Revenues
Compensation, commissions, payroll taxes and benefits costs	**$280,721**	**20.7%**	$286,261	21.7%	$277,825	21.1%
Other (1)	**50,451**	**3.7%**	54,481	4.1%	52,209	3.9%
Total SG&A	**$331,172**	**24.4%**	$340,742	25.8%	$330,034	25.0%

(1) Includes items such as bad debt expense, lease expense, professional fees, travel, telephone, computer and certain other expenses.

SG&A as a percentage of net service revenues decreased 140 basis points in 2017 compared to 2016, which was driven primarily by $6.0 million in severance costs recognized in 2016 related to realignment activities, improving associate productivity levels in 2017, and overall continued discipline in areas of travel and office related expenses. These benefits were partially offset by an increase in information technology investments. Additionally, during 2017, Kforce recorded a $3.3 million gain on the sale of Global's assets.

SG&A as a percentage of net service revenues increased 80 basis points in 2016 compared to 2015. This was primarily a result of the factors mentioned above as well as targeted investments in information technology and our revenue-generating talent, which negatively impacted SG&A as a percentage of revenue for 2016.

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):

	2017	**Increase (Decrease)**	2016	Increase (Decrease)	2015
Fixed asset depreciation (1)	**$6,939**	**4.2%**	$6,660	(1.2)%	$6,738
Capitalized software amortization	**971**	**(32.9)%**	1,448	(37.5)%	2,318
Intangible asset amortization	**345**	**(41.8)%**	593	(23.5)%	775
Total Depreciation and amortization	**$8,255**	**(5.1)%**	$8,701	(11.5)%	$9,831

(1) Includes amortization of capital leases.

Other Expense, Net. Other expense, net was $4.5 million in 2017, $3.1 million in 2016, and $2.6 million in 2015, 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 tax rate") for the year ended December 31, 2017, was 48.1%. Our effective tax rate for 2017 was unfavorably impacted due to the revaluation of our net deferred tax assets as a result of the TCJA. Excluding the impact of this revaluation, our effective tax rate would have been 39.7%. For the year ended December 31, 2016, our effective tax rate was 41.4%, which was unfavorably impacted by certain one-time non-cash adjustments. For the year ended December 31, 2015, our effective tax rate was 40.3%, which 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.

We expect that our effective tax rate will be in the range of 25.5% to 27.5% for 2018 as a result of the TCJA.

NON-GAAP FINANCIAL MEASURES

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,	**2017**	2016	2015
Net income	**$ 33,285**	$ 32,773	$ 42,824
Non-cash provisions and other	**29,134**	21,093	22,153
Changes in operating assets/liabilities	**(33,080)**	(14,043)	5,754
Net cash provided by operating activities	**29,339**	39,823	70,731
Capital expenditures	**(5,846)**	(12,420)	(8,328)
Free cash flow	**23,493**	27,403	62,403
Change in debt	**4,976**	31,075	(12,861)
Repurchases of common stock	**(14,622)**	(46,013)	(38,471)
Cash dividend	**(12,144)**	(12,447)	(12,545)
Other	**(2,806)**	(33)	1,733
Change in cash and cash equivalents	**$ (1,103)**	$ (15)	$ 259

Adjusted EBITDA. "Adjusted EBITDA", a non-GAAP financial measure, is defined by Kforce as net income before depreciation and amortization, stock-based compensation expense, interest expense, net and income tax expense. 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. Management believes it is useful information to investors as it provides a good metric of our core profitability in comparing our performance to our competitors, as well as our performance over different time periods. 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 susceptible to varying calculations, and 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 shareholder 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,	**2017**	2016	2015
Net income	**$33,285**	$32,773	$42,824
Depreciation and amortization	**8,508**	8,796	9,831
Stock-based compensation expense	**7,600**	6,705	5,819
Interest expense, net	**5,039**	3,050	2,342
Income tax expense	**30,809**	23,182	28,848
Adjusted EBITDA	**$85,241**	$74,506	$89,664

LIQUIDITY AND CAPITAL RESOURCES

To meet our capital and liquidity requirements, we primarily rely on operating cash flow, as well as borrowings under our credit facility. At December 31, 2017, Kforce had $161.7 million in working capital compared to $135.4 million at December 31, 2016.

Cash Flows

The accompanying Consolidated Statements of Cash Flows for each of the years ended December 31, 2017, 2016 and 2015 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) generating positive cash flow from operating activities; (2) returning capital to our shareholders through our quarterly dividends and common stock repurchase program; (3) sustaining leverage under our credit facility; (4) investing in our infrastructure to allow sustainable growth via capital expenditures; and (5) maintaining sufficient availability under our credit facility for the possibility of completing an acquisition or other strategic investments.

As a result of the TCJA, we expect to generate an additional $10.0 million in operating cash in 2018 related to the decrease in our effective tax rate. 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 potential acquisitions and 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,	**2017**	2016	2015
Cash provided by (used in):			
Operating activities	**$ 29,339**	$ 39,823	$ 70,731
Investing activities	**(4,846)**	(12,420)	(8,364)
Financing activities	**(25,596)**	(27,418)	(62,108)
Net (decrease) increase in cash and cash equivalents	**$ (1,103)**	$ (15)	$ 259

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 associate and consultant populations' compensation. When comparing cash flows from operating activities, the decrease in cash provided by operating activities during the year ended December 31, 2017, as compared to 2016 is primarily due to an increase in accounts receivable, which was driven by the revenue growth in our business, the timing of collections and continued pressure from certain larger clients for extended payment terms. 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 as well as the delayed timing in collections of accounts receivable.

Investing Activities

Capital expenditures for the years ended December 31, 2017, 2016 and 2015, which exclude equipment acquired under capital leases, were $5.8 million, $12.4 million and $8.3 million, respectively. We expect to continue selectively investing in our infrastructure in order to support the expected future profitable growth in our business. We believe that we have sufficient cash and availability under the credit facility to pursue new business acquisitions or 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.

During the year ended December 31, 2017, Kforce completed the sale of Global's assets and received an initial $1.0 million in cash proceeds.

Financing Activities

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

	2017	2016	2015
Open market repurchases	**$ 12,276**	$ 44,109	$ 37,125
Repurchase of shares related to tax withholding requirements for vesting of restricted stock	**2,346**	1,904	1,346
Total cash flow impact of common stock repurchases	**$14,622**	$46,013	$38,471
Cash paid in current year for settlement of prior year repurchases	**$ 935**	$ 1,012	$ 1,425

During the years ended December 31, 2017, 2016 and 2015, Kforce declared and paid dividends of $12.1 million ($0.48 per share), $12.4 million ($0.48 per share), and $12.5 million ($0.45 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 current and expected financial performance and its legal ability to pay dividends.

Credit Facility

On May 25, 2017, the Firm entered into a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, Bank of America, N.A., as syndication agent, Regions Bank and BMO Harris Bank, N.A., as co-documentation agents, Wells Fargo Securities, LLC, as lead arranger and bookrunner, and the lenders referred to in the credit facility. Our new credit facility includes a maximum borrowing capacity of $300.0 million which, subject to certain conditions and participation of the lenders, may be increased up to an aggregate additional amount of $150.0 million in the form of revolving credit loans, swingline loans, and letters of credit. Letters of credit and swingline loans under the credit facility are subject to sublimits of $10.0 million. As of December 31, 2017, $116.5 million was outstanding and $180.3 million was available, subject to the covenants described below and as of December 31, 2016, $111.5 million was outstanding under the previous credit facility, which was paid off using the Firm's initial draw under the new credit facility.

The Firm will continually be subject to certain affirmative and negative covenants including (but not limited to), the maintenance of a fixed charge coverage ratio of no less than 1.25 to 1.00 and the maintenance of a total leverage ratio of no greater than 3.25 to 1.00. 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, stock-based compensation expense and other permitted items pursuant to our credit facility (disclosed as "Consolidated EBITDA"), less cash paid for capital expenditures, income taxes and dividends. The denominator is defined as Kforce's fixed charges such as interest expense and principal payments paid or payable on outstanding debt other than borrowings under the credit facility. The total leverage ratio is defined pursuant to the credit facility as total indebtedness divided by Consolidated EBITDA. Our ability to make distributions or repurchases of equity securities could be limited if an event of default has occurred. Furthermore, our ability to repurchase equity securities could be limited if (a) the total leverage ratio is greater than 2.75 to 1.00 and (b) the Firm's availability, under the credit facility plus unrestricted cash and cash equivalents, is less than $25.0 million. At December 31, 2017, Kforce was not limited in making distributions and executing repurchases of its equity securities. 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.

Off-Balance Sheet Arrangements

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2017, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling $2.9 million, and for facility lease deposits totaling $0.3 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):

	2017		2016(1)	
	Shares	**$**	Shares	$
Open market repurchases	**526**	**$12,239**	2,291	$44,032

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

As of December 31, 2017 and 2016, $38.5 million and $50.7 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, 2017 (in thousands):

		Payments due by period			
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Credit facility (1)	$116,523	$ —	$ —	$116,523	$ —
Interest payable—credit facility (2)	14,808	3,089	6,405	5,314	—
Operating lease obligations	25,928	9,338	12,420	2,723	1,447
Capital lease obligations	1,958	1,359	594	5	—
Purchase obligations (3)	14,543	8,624	5,919	—	—
Notes payable (4)	3,077	934	1,919	224	—
Interest payable—notes payable (4)	26	13	13	—	—
Liability for unrecognized tax positions (5)	—	—	—	—	—
Deferred compensation plans liability (6)	31,446	2,579	2,615	2,592	23,660
Supplemental Executive Retirement Plan (7)	17,070	—	—	12,788	4,282
Total	$225,379	$25,936	$29,885	$140,169	$29,389

(1) Our credit facility matures May 25, 2022.

(2) Kforce's weighted average interest rate as of December 31, 2017 was utilized to forecast the expected future interest rate payments. These payments are inherently uncertain due to fluctuations in interest rates and outstanding borrowings 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, 2017 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, 2017 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 are included in the accompanying Consolidated Balance Sheets and classified as Accounts payable and other accrued liabilities and Other long-term liabilities, as appropriate, and 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 Supplemental Executive Retirement Plan ("SERP") and, as a result, no contributions have been made through the year ended December 31, 2017. Kforce does not currently anticipate funding our SERP during 2018. Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2017, in the table above.

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

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. 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, 2017, would have impacted our net income for 2017 by approximately $0.1 million.
ACCOUNTING FOR INCOME TAXES See Note 3—"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, 2017	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 tax rate for 2017 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 $1.7 million as of December 31, 2017 related primarily to a foreign tax credit that we expect may not be realizable. A 0.50% change in our effective income tax rate would have impacted our net income for 2017 by approximately $0.3 million.

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, 2017 were $2.6 million and $1.2 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. 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, 2017 would have impacted our net income for 2017 by approximately $0.2 million.
DEFINED BENEFIT PENSION PLANS We have a defined benefit pension plan that benefits certain named executive officers, the SERP. See Note 7– "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, 2017 or 2016.	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 2017 would have had an insignificant impact on our net income for 2017.
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 4—"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, 2017 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 (Tech, FA and GS) 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.	Kforce performed a quantitative assessment for each of our reporting units (Tech, FA and GS) as of December 31, 2017. We compared the carrying value of each reporting unit to the respective estimated fair value as of December 31, 2017 and determined that the fair value significantly exceeded carrying value for each of our reporting units. As a result, no goodwill impairment charges were recognized during the year ended December 31, 2017. Although the valuation of the business supported its carrying value in 2017, a deterioration in any of the assumptions could result in an impairment charge in the future.

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, 2017. 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, 2017, 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.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kforce Inc. and subsidiaries ("Kforce") as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively referred to as the "financial statements"). We also have audited Kforce's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kforce as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

Basis for Opinions

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 are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Kforce in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP

Tampa, Florida
February 23, 2018

We have served as Kforce's auditor since 2000.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

Years Ended December 31,	**2017**	2016	2015
Net service revenues	**$1,357,940**	$1,319,706	$1,319,238
Direct costs of services	**949,884**	911,207	905,124
Gross profit	**408,056**	408,499	414,114
Selling, general and administrative expenses	**331,172**	340,742	330,034
Depreciation and amortization	**8,255**	8,701	9,831
Income from operations	**68,629**	59,056	74,249
Other expense, net	**4,535**	3,101	2,577
Income before income taxes	**64,094**	55,955	71,672
Income tax expense	**30,809**	23,182	28,848
Net income	**33,285**	32,773	42,824
Other comprehensive (loss) income:			
Defined benefit pension plans, net of tax	**(373)**	(134)	689
Change in fair value of interest rate swap, net of tax	**289**	—	—
Comprehensive income	**$ 33,201**	$ 32,639	$ 43,513
Earnings per share—basic	**$1.32**	$1.26	$1.53
Earnings per share—diluted	**$1.30**	$1.25	$1.52
Weighted average shares outstanding—basic	**25,222**	26,099	27,910
Weighted average shares outstanding—diluted	**25,586**	26,274	28,190
Dividends declared per share	**$0.48**	$0.48	$0.45

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

CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31,	**2017**	2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 379**	$ 1,482
Trade receivables, net of allowances of $2,333 and $2,066, respectively	**225,865**	206,361
Income tax refund receivable	**7,116**	172
Prepaid expenses and other current assets	**12,085**	10,691
Total current assets	**245,445**	218,706
Fixed assets, net	**39,680**	43,145
Other assets, net	**38,598**	30,511
Deferred tax assets, net	**11,316**	23,449
Intangible assets, net	**3,297**	3,642
Goodwill	**45,968**	45,968
Total assets	**$ 384,304**	$ 365,421
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 34,873**	$ 37,230
Accrued payroll costs	**46,886**	44,137
Other current liabilities	**1,960**	1,765
Income taxes payable	**—**	221
Total current liabilities	**83,719**	83,353
Long-term debt—credit facility	**116,523**	111,547
Long-term debt—other	**2,597**	3,984
Other long-term liabilities	**47,188**	44,801
Total liabilities	**250,027**	243,685
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.01 par; 15,000 shares authorized, none issued and outstanding	**—**	—
Common stock, $0.01 par; 250,000 shares authorized, 71,494 and 71,268 issued, respectively	**715**	713
Additional paid-in capital	**437,394**	428,212
Accumulated other comprehensive income	**100**	184
Retained earnings	**195,143**	174,967
Treasury stock, at cost; 45,167 and 44,469 shares, respectively	**(499,075)**	(482,340)
Total stockholders' equity	**134,277**	121,736
Total liabilities and stockholders' equity	**$ 384,304**	$ 365,421

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,	2017	2016	2015
Common stock—shares:			
Shares at beginning of year	**71,268**	70,558	70,029
Issuance for stock-based compensation and dividends, net of forfeitures	**221**	695	497
Exercise of stock options	**5**	15	32
Shares at end of year	**71,494**	71,268	70,558
Common stock—par value:			
Balance at beginning of year	**$ 713**	$ 705	$ 700
Issuance for stock-based compensation and dividends, net of forfeitures	**2**	8	5
Exercise of stock options	**—**	—	—
Balance at end of year	**$ 715**	$ 713	$ 705
Additional paid-in capital:			
Balance at beginning of year	**$ 428,212**	$ 420,276	$ 412,642
Cumulative effect upon adoption of new accounting standard (Note 1)	**769**	—	—
Issuance for stock-based compensation and dividends, net of forfeitures	**494**	447	556
Exercise of stock options	**72**	172	381
Income tax benefit from stock-based compensation	**—**	307	551
Stock-based compensation expense	**7,600**	6,705	5,819
Employee stock purchase plan	**247**	305	327
Balance at end of year	**$ 437,394**	$ 428,212	$ 420,276
Accumulated other comprehensive income (loss):			
Balance at beginning of year	**$ 184**	$ 318	$ (371)
Defined benefit pension plans, net of tax benefit of $207 and $89, and tax expense of $429, respectively	**(373)**	(134)	689
Change in fair value of interest rate swap, net of tax of $189	**289**	—	—
Balance at end of year	**$ 100**	$ 184	$ 318
Retained earnings:			
Balance at beginning of year	**$ 174,967**	$ 155,096	$ 125,378
Cumulative effect upon adoption of new accounting standard (Note 1), net of tax of $300	**(469)**	—	—
Net income	**33,285**	32,773	42,824
Dividends, net of forfeitures ($0.48, $0.48 and $0.45 per share, respectively)	**(12,640)**	(12,902)	(13,106)
Balance at end of year	**$ 195,143**	$ 174,967	$ 155,096
Treasury stock—shares:			
Shares at beginning of year	**44,469**	42,130	40,616
Repurchases of common stock	**723**	2,370	1,540
Shares tendered in payment of the exercise price of stock options	**—**	3	—
Employee stock purchase plan	**(25)**	(34)	(26)
Shares at end of year	**45,167**	44,469	42,130
Treasury stock—cost:			
Balance at beginning of year	**$(482,340)**	$(436,768)	$(398,961)
Repurchases of common stock	**(17,010)**	(45,873)	(38,058)
Shares tendered in payment of the exercise price of stock options	**—**	(63)	—
Employee stock purchase plan	**275**	364	251
Balance at end of year	**$(499,075)**	$(482,340)	$(436,768)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended December 31,	2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 33,285**	$ 32,773	$ 42,824
Adjustments to reconcile net income to cash provided by operating activities:			
Deferred income tax provision, net	**12,243**	2,007	2,380
Provision for bad debt	**1,031**	976	1,553
Depreciation and amortization	**8,508**	8,796	9,849
Stock-based compensation expense	**7,600**	6,705	5,819
Defined benefit pension plans expense	**937**	1,733	1,846
Loss on deferred compensation plan investments, net	**510**	597	77
Gain on sale of Global's assets	**(3,148)**	—	—
Contingent consideration liability remeasurement	**565**	(42)	321
Other	**888**	321	308
(Increase) decrease in operating assets			
Trade receivables, net	**(20,535)**	(8,403)	4,223
Income tax refund receivable	**(6,944)**	354	2,785
Prepaid expenses and other current assets	**(1,471)**	(1,631)	1,110
Other assets, net	**(556)**	(495)	(298)
(Decrease) increase in operating liabilities			
Accounts payable and other current liabilities	**(1,537)**	(1,920)	1,788
Accrued payroll costs	**1,954**	(1,320)	(5,503)
Income taxes payable	**(221)**	(489)	(1,657)
Other long-term liabilities	**(3,770)**	(139)	3,306
Cash provided by operating activities	**29,339**	39,823	70,731
Cash flows from investing activities:			
Capital expenditures	**(5,846)**	(12,420)	(8,328)
Proceeds from sale of Global's assets	**1,000**	—	—
Proceeds from the disposition of assets held within the Rabbi Trust	**—**	—	445
Purchase of assets held within the Rabbi Trust	**—**	—	(481)
Cash used in investing activities	**(4,846)**	(12,420)	(8,364)
Cash flows from financing activities:			
Proceeds from credit facility	**1,038,593**	937,083	604,668
Payments on credit facility	**(1,033,617)**	(906,008)	(617,529)
Proceeds from other financing arrangements	**—**	1,783	2,914
Payments on other financing arrangements	**(2,148)**	(1,830)	(1,274)
Payments of loan financing fees	**(1,730)**	(158)	—
Proceeds from exercise of stock options, net of shares tendered in payment of exercise	**72**	172	381
Repurchases of common stock	**(14,622)**	(46,013)	(38,471)
Cash dividend	**(12,144)**	(12,447)	(12,545)
Other	**—**	—	(252)
Cash used in financing activities	**(25,596)**	(27,418)	(62,108)
Change in cash and cash equivalents	**(1,103)**	(15)	259
Cash and cash equivalents at beginning of year	**1,482**	1,497	1,238
Cash and cash equivalents at end of year	**$ 379**	$ 1,482	$ 1,497

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

NOTES TO 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 "Kforce," "the Company," "we," "the Firm," "management," "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 U.S. 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 trade accounts receivable reserves; income taxes; self-insured liabilities for workers' compensation and health insurance; obligations for defined benefit pension plans and goodwill and identifiable intangible assets and any related impairment. 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

Revenue is considered earned once evidence of an arrangement has been obtained, service is performed or 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 temporary staffing services are provided by Kforce's consultants. Flex revenues are recorded net of credits, discounts, rebates and revenue-related reserves. Reimbursements of travel and out-of-pocket expenses ("billable expenses") are also recorded within Flex revenues with an equivalent amount of expense recorded in direct costs of services.

Direct Hire revenues are recognized when candidates accept offers of permanent employment and are scheduled to commence employment within 30 days. Direct Hire revenues are recorded net of an estimated reserve for fallouts, which is estimated 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 does not generate any Direct Hire revenues.

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, which represents approximately 8% of total revenues, generates revenues under the following contract arrangements:

- Revenues for time-and-materials contracts, which accounts for approximately 58% 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 30% 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 12% of this segment's revenues, are recognized at the time of delivery.

Kforce collects sales tax for various taxing authorities and our policy is to record these amounts on a net basis; thus, gross 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 consultants, including compensation, payroll taxes, payroll-related insurance and certain fringe benefits, as well as subcontractor costs. Direct costs of services exclude depreciation and amortization expense (except for the GS product-based business), 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 gross profit for Flex or Direct Hire revenues pursuant to a commission plan. The amount of associate commissions paid increases as volume increases. Kforce accrues commissions at a percentage equal to the percent of total expected commissions payable to total revenues or gross profit for the commission-plan period, as applicable.

Stock-Based Compensation

Stock-based compensation is measured using the grant-date fair value of the award of equity instruments. The expense is recognized over the requisite service period. Effective January 1, 2017, as a result of our adoption of a recently issued accounting standard, the Firm changed its accounting policy regarding forfeitures and elected to recognize as incurred.

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. Effective January 1, 2017, as a result of our adoption of a recently issued accounting standard, excess tax benefits or deficiencies of deductions attributable to employees' vesting of restricted stock are reflected in Income tax expense in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Management 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 recognizes tax benefits from uncertain tax positions when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes.

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.

Trade Accounts Receivable and Related Reserves

Kforce records trade accounts receivables at the invoiced amount, net of reserves for allowance for doubtful accounts, fallouts, early payment discounts and revenue adjustments based on historical trends and estimates of potential future activity. The allowance for doubtful accounts, which comprises a majority of our trade accounts receivable reserves, is determined based on factors including recent write-off and delinquency trends, a specific analysis of significant receivable balances that are past due, the concentration of trade accounts receivables among clients and higher-risk sectors, and the current state of the U.S. economy. Trade accounts receivables are written off after all reasonable collection efforts have been exhausted. Trade accounts receivable reserves as a percentage of gross trade receivables was 1.0% at December 31, 2017 and 2016.

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 lesser 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 within SG&A 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, in the Consolidated Balance Sheets.

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

Goodwill and Other Intangible Assets

Goodwill

Management has determined that the reporting units for the goodwill analysis is consistent with our reporting segments. We evaluate goodwill for impairment either through a qualitative or quantitative approach annually, or more frequently if an event occurs or circumstances change that indicate the carrying value of a reporting unit may not be recoverable. If we perform a quantitative assessment that indicates the carrying amount of a reporting unit exceeds its fair market value, an impairment loss is recognized to reduce the carrying amount to its fair market value. Kforce determines the fair market value of each reporting unit 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 reporting unit 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 and operating conditions or changes in Kforce's business strategies that occur after the annual impairment analysis may impact these assumptions and result in a future goodwill impairment charge, which could be material to our consolidated financial statements.

Other Intangible Assets

Identifiable intangible assets arising from certain of Kforce's acquisitions include non-compete and employment agreements, contractual relationships, client 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, our 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 an analysis indicates the carrying amount of these long-lived assets exceeds the fair value, an impairment loss is recognized to reduce the carrying amount to its fair market value, 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 $700 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.

Defined Benefit Pension Plans

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, 2017, 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 net income divided by the weighted average number of common shares outstanding ("WASO") during the period. WASO excludes unvested shares of restricted stock. Diluted earnings per share is computed by dividing net income 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, 2017, 2016 and 2015, there were 364 thousand, 175 thousand, and 280 thousand common stock equivalents, respectively, included in the diluted WASO. For the years ended December 31, 2017, 2016 and 2015, there were 527 thousand, 32 thousand and 1 thousand, respectively, 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.

Derivative Instrument

Kforce's interest rate swap derivative instrument is recorded at fair value on the Consolidated Balance Sheets. The derivative instrument has been designated as a cash flow hedge; the effective portion of the gain or loss on the derivative instrument is recorded as a component of Accumulated other comprehensive income (loss), net of tax, and reclassified into earnings when the hedged item affects earnings and into the line item of the hedged item. Any ineffective portion of the gain or loss is recognized immediately into Other expense, net on the Consolidated Statements of Operations and Comprehensive Income. Cash flows from the derivative instrument are classified in the Consolidated Statements of Cash Flows in the same category as the hedged item.

Fair Value Measurements

Kforce uses fair value measurements in areas that include, but are not limited to: the impairment testing of goodwill, other intangible assets and other long-lived assets; stock-based compensation; interest rate swap and a contingent consideration liability. The carrying values of cash and cash equivalents, trade accounts receivable, other current assets and accounts payable, and other 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

Recently Adopted Accounting Standards

In March 2017, the FASB issued authoritative guidance requiring that an employer disaggregate the service cost component from the other components of net periodic benefit cost for defined benefit pension plans. The amendments also provide explicit guidance on how to present the service cost component and the other components of net periodic benefit cost in the income statement. The guidance is to be applied for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early adoption is permitted. The guidance should be applied retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the income statements. We elected to early adopt this guidance as of January 1, 2017 due to the ease of implementation. The impact of early adoption resulted in a retrospective adjustment to the Consolidated Statements of Operations and Comprehensive Income to reclass the interest cost component of net periodic benefit cost from Selling, general and administrative expenses to Other expense, net. The amount of the reclassification was approximately $0.5 million, $0.5 million and $0.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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 and 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. We elected to early adopt this guidance as of January 1,

2017. The adoption of this guidance did not have an impact on the Firm's consolidated financial statements.

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 liability, and classification in the statement of cash flows. This guidance was effective for us on January 1, 2017. The impact of this guidance resulted in the following:

- All excess tax benefits and deficiencies will be recognized as income tax benefit or expense in the income statement. Prior to the effective date, they were recognized as a change to additional paid-in capital. The Firm applied this amendment prospectively. For the year ended December 31, 2017, the Firm recorded approximately $0.8 million of excess tax benefits as a reduction to income tax expense in the accompanying Consolidated Statements of Operations and Comprehensive Income. This resulted in a reduction to our effective tax rate of 1.2% and an increase to our diluted earnings per share of $0.03 for the year ended December 31, 2017. This accounting standard guidance is likely to create volatility in the Firm's effective tax rate in the future, though the impact is uncertain and based upon future stock price changes.
- Excess tax benefits and deficiencies will be classified as an operating activity in the statement of cash flows. Prior to the effective date, they were included in financing activities in the statement of cash flows. The Firm elected to apply this amendment retrospectively. This change increased our net cash provided by operating activities by $0.8 million, $0.4 million and $0.6 million for the years ended December 31, 2017, 2016 and 2015, respectively, in the accompanying Consolidated Statements of Cash Flows.
- An entity is allowed to make a policy election as to whether it will include an estimate for awards expected to be forfeited or whether it will account for forfeitures as incurred. The Firm elected to change its policy on accounting for forfeitures and to recognize as incurred. This policy election is to be applied using a modified retrospective approach with a cumulative-effect adjustment to retained earnings as of the effective date. The impact to the beginning balance of retained earnings was $0.5 million, which is net of taxes of $0.3 million, on January 1, 2017.

In November 2015, the FASB issued authoritative guidance requiring that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. This guidance was effective for us on January 1, 2017. The Firm elected to apply this guidance retrospectively. As a result, $4.8 million of current deferred tax assets, net was reclassified to noncurrent deferred tax assets, net as of December 31, 2016.

Accounting Standards Not Yet Adopted

In August 2017, the FASB issued authoritative guidance targeting improvements to accounting for hedging activities by simplifying the rules around hedge accounting and improving the disclosure requirements. The guidance is to be applied for annual periods beginning after December 15, 2018, including interim periods within those annual periods, and early adoption is permitted in any interim period. The hedge accounting guidance should be implemented using a modified retrospective approach for any hedges that exist on the date of adoption, while the presentation and disclosure requirements must be applied prospectively. Kforce is currently evaluating the potential impact on the consolidated financial statements.

In June 2016, the FASB issued authoritative guidance on accounting for credit losses on financial instruments, including trade receivables. The guidance requires the application of a current expected credit loss model, which measures credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts. The guidance is to be applied for annual periods beginning after December 15, 2019, and interim periods within those annual periods, and early adoption is permitted no sooner than annual periods beginning after December 15, 2018. The guidance requires companies to apply the requirements using a modified retrospective approach. Kforce is currently evaluating the potential impact on the consolidated financial statements.

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. The Firm has made progress with assessing contractual arrangements that may be impacted by the new standard. Kforce anticipates that the adoption of this standard will have a significant impact to its consolidated balance sheet as it will result in recording substantially all operating leases as a right-to-use asset and lease obligation. Kforce continues to assess all potential impacts of the standard, especially with respect to our disclosures.

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 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. We have completed our assessment and have concluded that it will not have a material impact on the timing of our revenue recognition as substantially all of our contracts with customers will continue to be recognized over time as services are rendered. Upon adoption, we will recognize the cumulative effect of adopting this guidance as an adjustment to our opening balance of retained earnings, net of tax, primarily related to certain GS contracts; this adjustment will be approximately $0.2 million. We will also reclassify the allowance for Direct Hire fallouts from trade accounts receivable to a contract liability on the consolidated balance sheets. Additionally, there will be an increase in the level of disclosure around our arrangements and resulting revenue recognition.

2. FIXED ASSETS

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

December 31,	Useful Life	**2017**	2016
Land		**$ 5,892**	$ 5,892
Building and improvements	5-40 years	**25,733**	25,701
Furniture and equipment	5-20 years	**17,285**	17,084
Computer equipment	3-5 years	**9,231**	11,003
Leasehold improvements	3-5 years	**13,424**	13,345
		71,565	73,025
Less accumulated depreciation		**(31,885)**	(29,880)
Total Fixed assets, net		**$ 39,680**	$ 43,145

Computer equipment as of December 31, 2017 and 2016 includes equipment acquired under capital leases of $3.5 million and $4.0 million, respectively, and related accumulated depreciation of $2.1 million and $2.3 million, respectively. Depreciation expense, which includes capital leases, during the years ended December 31, 2017, 2016 and 2015 was $6.9 million, $6.7 million, and $6.7 million, respectively.

3. INCOME TAXES

The Tax Cuts and Jobs Act was enacted in December 2017, which will reduce the U.S. federal corporate tax rate from 35.0% to 21.0% beginning in 2018. As a result, we revalued our net deferred income tax assets and recorded $5.4 million of additional Income tax expense in the Consolidated Statement of Operations and Comprehensive Income.

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

Years Ended December 31,	**2017**	2016	2015
Current tax expense:			
Federal	**$15,060**	$16,677	$22,265
State	**3,244**	3,829	4,632
Deferred tax expense (1)	**12,505**	2,676	1,951
Total Income tax expense	**$30,809**	$23,182	$28,848

(1) Includes the impact of TCJA.

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,	**2017**	2016	2015
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of Federal tax effect	**3.8**	6.8	6.1
Non-deductible compensation and meals and entertainment	**0.7**	1.2	0.7
Tax credits	**(2.2)**	(2.1)	(1.0)
Valuation allowance on foreign tax credit	**2.5**	—	—
Enactment of TCJA	**9.1**	—	—
Other	**(0.8)**	0.5	(0.5)
Effective tax rate	**48.1%**	41.4%	40.3%

The 2017 effective tax rate was unfavorably impacted due to the revaluation of our net deferred tax assets as a result of TCJA. The 2016 effective tax rate was unfavorably impacted by certain one-time non-cash adjustments. The 2015 effective tax 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 tax assets and liabilities are composed of the following (in thousands):

December 31,	**2017**	2016
Deferred tax assets:		
Accounts receivable reserves	**$ 611**	$ 812
Accrued liabilities	**1,953**	3,400
Deferred compensation obligation	**5,423**	9,206
Stock-based compensation	**598**	2,196
Pension and post-retirement benefit plans	**3,767**	6,029
Goodwill and intangible assets	**526**	3,869
Foreign tax credit	**1,632**	—
Other	**289**	230
Deferred tax assets	**14,799**	25,742
Deferred tax liabilities:		
Prepaid expenses	**(251)**	(260)
Fixed assets	**(1,482)**	(1,593)
Other	**(17)**	(355)
Deferred tax liabilities	**(1,750)**	(2,208)
Valuation allowance	**(1,733)**	(85)
Deferred tax assets, net	**$11,316**	$23,449

At December 31, 2017, Kforce had approximately $6.1 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. The increase in the valuation allowance during the year ended December 31, 2017 was related to the foreign tax credit, which we expect may not be realizable as a result of reduction in our foreign income.

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. During 2017 and 2016, there were no on-going 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 balance of unrecognized tax benefits for the years ended (in thousands):

December 31,	**2017**	2016	2015
Unrecognized tax benefits, beginning	**$1,115**	$ 788	$278
Additions for prior year tax positions	**50**	454	625
Additions for current year tax positions	**29**	—	—
Reductions for tax positions of prior years	**—**	(25)	(8)
Lapse of statute of limitations	**(67)**	(102)	(25)
Settlements	**—**	—	(82)
Unrecognized tax benefits, ending	**$1,127**	$1,115	$788

As of December 31, 2017, 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 2014.

4. 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, 2017, 2016 and 2015 (in thousands):

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

There was no impairment expense related to goodwill for each of the years ended December 31, 2017, 2016 and 2015.

Throughout 2017, 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.

Kforce performed a quantitative analysis for each reporting unit and compared the carrying value of Tech, FA and GS to the respective estimated fair values as of December 31, 2017. Discounted cash flows, which serve as the primary basis for the income approach, were based on a discrete financial forecast developed by management. 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 market approach 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. Kforce concluded there were no indications of impairment for its reporting units during the December 31, 2017 annual impairment tests.

As of December 31, 2016 and 2015, for our GS reporting unit, we performed a quantitative analysis and compared the carrying value to the estimated fair value, using a similar approach as described above noting no indications of impairment. As of December 31, 2016 and 2015, for our Tech and FA reporting units, 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 the reporting units were more than its carrying amount.

Other Intangible Assets

Our other intangible assets balance includes an indefinite-lived trademark of $2.2 million as of December 31, 2017 and 2016 and is recorded in Intangible assets, net in the accompanying Consolidated Balance Sheets. As of December 31, 2017 and 2016, our definite-lived intangible assets balance of $1.1 million and $1.4 million, respectively, included accumulated amortization of $27.5 million and $27.2 million, respectively. There was no impairment expense related to our other intangible assets during the years ended December 31, 2017, 2016 and 2015.

5. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

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

December 31,	**2017**	2016
Accounts payable	**$21,591**	$20,321
Accrued liabilities	**13,282**	16,909
Total Accounts payable and other accrued liabilities	**$34,873**	$37,230

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.

6. ACCRUED PAYROLL COSTS

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

December 31,	**2017**	2016
Payroll and benefits	**$37,788**	$37,409
Payroll taxes	**5,270**	2,640
Health insurance liabilities	**2,596**	2,790
Workers' compensation liabilities	**1,232**	1,298
Total Accrued payroll costs	**$46,886**	$44,137

7. 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 $1.6 million and $1.5 million as of December 31, 2017 and 2016, respectively. The plans held a combined 167 thousand and 201 thousand shares of Kforce's common stock as of December 31, 2017 and 2016, 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 25 thousand, 34 thousand, and 26 thousand shares of common stock at an average purchase price of $20.65, $19.37, and $22.61 per share during the years ended December 31, 2017, 2016 and 2015, 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, 2017 and 2016, amounts included in Accounts payable and other accrued liabilities related to the deferred compensation plans totaled $2.9 million and $2.7 million, respectively. Amounts included in Other long-term liabilities related to the deferred compensation plans totaled $28.9 million and $27.5 million as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017, 2016 and 2015, we recognized compensation expense for the plans of $722 thousand, $881 thousand and $401 thousand, respectively. 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 $31.4 million and $27.3 million as of December 31, 2017 and 2016, respectively, and is recorded in Other assets, net in the accompanying Consolidated Balance Sheets. As of December 31, 2017, the life insurance policies had a cumulative face value of $213.1 million. Kforce had no realized gains or losses attributable to investments in trading securities for the years ended December 31, 2017, 2016 and 2015.

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 will be 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, 2017, 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, 2017 and 2016, 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,	**2017**	2016
Discount rate	**3.25%**	4.00%
Rate of future compensation increase	**2.90%**	3.60%

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

December 31,	**2017**	2016	2015
Discount rate	**4.00%**	4.00%	3.75%
Rate of future compensation increase	**3.60%**	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,	**2017**	2016	2015
Service cost	**$319**	$1,310	$1,323
Interest cost	**537**	453	383
Net periodic benefit cost	**$856**	$1,763	$1,706

Changes in Benefit Obligation

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

December 31,	**2017**	2016
Projected benefit obligation, beginning	**$13,436**	$11,337
Service cost	**319**	1,310
Interest cost	**537**	453
Actuarial experience and changes in actuarial assumptions	**117**	336
Projected benefit obligation, ending	**$14,409**	$13,436

There were no payments made under the SERP during the years ended December 31, 2017 and 2016, 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, 2017 and 2016 was $14.3 million and $12.7 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, 2017. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2018.

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
2018	$ —
2019	—
2020	—
2021	12,788
2022	—
2023-2027	—
Thereafter	4,282

8. CREDIT FACILITY

On May 25, 2017, the Firm entered into a credit agreement with Wells Fargo Bank, National Association, as administrative agent, Wells Fargo Securities, LLC, as lead arranger and bookrunner, Bank of America, N.A., as syndication agent, Regions Bank and BMO Harris Bank, N.A., as co-documentation agents, and the lenders referred to therein (the "Credit Facility"). In connection with entering into the Credit Facility, the Firm satisfied and terminated its previous credit facility in its entirety. Under the Credit Facility, the Firm will have a maximum borrowing capacity of $300.0 million, which may, subject to certain conditions and the participation of the lenders, be increased up to an aggregate additional amount of $150.0 million (the "Commitment"), which will be available to the Firm in the form of revolving credit loans, swingline loans, and letters of credit. Letters of credit and swingline loans under the Credit Facility are subject to sublimits of $10.0 million. The maturity date of the Credit Facility is May 25, 2022. Borrowings under the Credit Facility are secured by substantially all of the tangible and intangible assets of the Firm, excluding the Firm's corporate headquarters and certain other designated executed collateral.

Revolving credit loans under the Credit Facility will bear interest at a rate equal to: (a) the Base Rate (as described below) plus the Applicable Margin (as described below); or (b) the LIBOR Rate plus the Applicable Margin. Swingline loans under the Credit Facility will bear interest at a rate equal to the Base Rate plus the Applicable Margin. The Base Rate is the highest of: (i) the Wells Fargo Bank, National Association prime rate; (ii) the federal funds rate plus 0.50%; or (iii) one-month LIBOR plus 1.00%, and the LIBOR Rate is reserve-adjusted LIBOR for the applicable interest period, but not less than zero. The Applicable Margin is based on the Firm's total leverage ratio. The Applicable Margin for Base Rate loans ranges from 0.25% to 0.75% and the Applicable Margin for LIBOR Rate loans ranges from 1.25% to 1.75%. The Firm will pay a quarterly non-refundable commitment fee equal to the Applicable Margin on the average daily unused portion of the Commitment (swingline loans do not constitute usage for this purpose). The Applicable Margin for the commitment fee is based on the Firm's total leverage ratio and ranges between 0.20% and 0.35%.

The Firm will continually be subject to certain affirmative and negative covenants including (but not limited to), the maintenance of a fixed charge coverage ratio of no less than 1.25 to 1.00 and the maintenance of a total leverage ratio of no greater than 3.25 to 1.00. 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, stock-based compensation expense and other permitted items pursuant to our Credit Facility (disclosed as "Consolidated EBITDA"), less cash paid for capital expenditures, income taxes and dividends. The denominator is defined as Kforce's fixed charges such as interest expense and principal payments paid or payable on outstanding debt other than borrowings under the Credit Facility. The total leverage ratio is defined pursuant to the Credit Facility as total indebtedness divided by Consolidated EBITDA. Our ability to make distributions or repurchases of equity securities could be limited if an event of default has occurred. Furthermore, our ability to repurchase equity securities could be limited if: (a) the total leverage ratio is greater than 2.75 to 1.00; and (b) the Firm's availability, inclusive of unrestricted cash, is less than $25.0 million. At December 31, 2017, Kforce was not limited in making distributions and executing repurchases of its equity securities.

As of December 31, 2017, $116.5 million was outstanding and $180.3 million was available under the Credit Facility, subject to the covenants described above. Kforce has $3.2 million of outstanding letters of credit at December 31, 2017 which, pursuant to the Credit Facility, reduce the availability. As of December 31, 2016, $111.5 million was outstanding under the previous credit facility.

9. DERIVATIVE INSTRUMENT AND HEDGING ACTIVITY

Kforce is exposed to interest rate risk as a result of our corporate borrowing activities. The Firm uses an interest rate swap derivative as a risk management tool to mitigate the potential impact of interest rate risk on our financial results.

On April 21, 2017, Kforce entered into a forward-starting interest rate swap agreement with Wells Fargo Bank, N.A. The Swap rate is 1.81%, which is added to our interest rate margin to determine the fixed rate that the Firm will pay to the counterparty during the term of the Swap based on the notional amount of the Swap. The effective date of the Swap is May 31, 2017 and the maturity date is April 29, 2022. The notional amount of the Swap is $65.0 million for the first three years and decreases to $25.0 million for years four and five. The Swap is recorded in Other long-term liabilities within the accompanying Consolidated Balance Sheets.

The Swap has been designated as a cash flow hedge and was effective as of December 31, 2017. The change in the fair value of the Swap was recorded as a component of Accumulated other comprehensive income (loss), net of tax, in the Consolidated Statements of Operations and Comprehensive Income. As of December 31, 2017, the fair value of the Swap was a $0.5 million asset.

10. FAIR VALUE MEASUREMENTS

Kforce's interest rate swap is measured at fair value using readily observable inputs, such as the LIBOR interest rate. The inputs used to calculate the fair value of the Swap derivative instrument are considered to be Level 2 inputs. The Swap is recorded in Other assets, net within the accompanying Consolidated Balance Sheets. Refer to Note 9—"Derivative Instrument and Hedging Activity" in the Notes to the Consolidated Financial Statements, included in this Annual Report for a complete discussion of the Firm's derivative instrument.

Kforce has a contingent consideration liability related to a non-significant acquisition of a business within our GS 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, 2017 and 2016, approximately $565 thousand and $42 thousand of income, 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, 2017 and 2016 was $191 thousand and $756 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.

The estimated fair values as of December 31, 2017 and 2016 were as follows (in thousands):

Assets/(Liabilities) Measured at Fair Value:	Asset/ (Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2017				
Recurring basis:				
Interest rate swap derivative instrument	$ 479	$—	$479	$ —
Contingent consideration liability	$(191)	$—	$ —	$(191)
As of December 31, 2016				
Recurring basis:				
Contingent consideration liability	$(756)	$—	$ —	$(756)

There were no transfers into or out of Level 1, 2 or 3 assets or liabilities during the years ended December 31, 2017 and 2016.

11. STOCK INCENTIVE PLANS

On April 18, 2017, the Kforce shareholders approved the 2017 Stock Incentive Plan ("2017 Plan"). The 2017 Plan allows for the issuance of stock options, stock appreciation rights, restricted stock (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 2017 Plan is approximately 3.0 million shares. The 2017 Plan terminates on April 18, 2027. Prior to the effective date of the 2017 Plan, the Company granted stock awards to eligible participants under our 2016 Stock Incentive Plan, 2013 Stock Incentive Plan and 2006 Stock Incentive Plan (collectively, the "Prior Plans"). No additional awards may be granted pursuant to the Prior Plans; however, awards outstanding as of the effective date will continue to vest in accordance with the terms of the Prior Plans.

During the years ended December 31, 2017, 2016 and 2015, Kforce recognized total stock-based compensation expense of $7.6 million, $6.7 million, and $5.8 million, respectively. The related tax benefit for the years ended December 31, 2017, 2016 and 2015 was $3.0 million, $2.8 million, and $2.3 million, respectively.

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, 2017 will vest over a period between three to five years, with equal vesting annually. Other restricted stock granted during the year ended December 31, 2017 will vest over a period of between one to ten years, with equal vesting annually.

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, 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, 2017, 2016 and 2015 (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, 2014	982	$18.55	
Granted	556	$24.01	
Forfeited/Canceled	(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/Canceled	(353)	$21.04	
Vested	(280)	$20.67	$ 6,434
Outstanding as of December 31, 2016	1,708	$21.86	
Granted	**427**	**$24.03**	
Forfeited/Canceled	**(206)**	**$21.70**	
Vested (2)	**(574)**	**$21.60**	**$13,668**
Outstanding as of December 31, 2017	**1,355**	**$22.67**	

(1) The increase in shares granted during the year ended December 31, 2016 was due to a change in the grant date practice for our annual LTI awards. 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 and thereafter, 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).

(2) The increase in shares vested during the year ended December 31, 2017 was due to a shift in the vesting date of our outstanding annual LTI awards from January 2, 2018 and January 4, 2018 to December 31, 2017 as a tax planning strategy.

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, 2017, total unrecognized stock-based compensation expense related to restricted stock was $27.6 million, which will be recognized over a weighted average remaining period of 4.3 years.

12. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Kforce leases office 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. In addition to rental payments, certain leases require payments for taxes, insurance and maintenance costs.

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

	2018	2019	2020	2021	2022	Thereafter	Total
Capital leases							
Present value of payments	$ 1,140	$ 334	$ 115	$ 5	$ —	$ —	$ 1,594
Interest	219	140	5	—	—	—	364
Total Capital lease payments	$ 1,359	$ 474	$ 120	$ 5	$ —	$ —	$ 1,958
Operating leases							
Facilities	$ 9,331	$7,642	$4,764	$1,937	$772	$1,447	$25,893
Furniture and equipment	7	7	7	7	7	—	35
Total Operating lease payments	$ 9,338	$7,649	$4,771	$1,944	$779	$1,447	$ 25,928
Total Lease payments	$10,697	$8,123	$4,891	$1,949	$779	$1,447	$27,886

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, $7.7 million and $6.7 million for the years ended December 31, 2017, 2016 and 2015, 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, 2017, these purchase commitments amounted to approximately $14.5 million and are expected to be paid as follows: $8.6 million in 2018; $4.5 million in 2019; and $1.4 million in 2020.

Letters of Credit

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2017, Kforce had letters of credit outstanding for workers' compensation and other insurance coverage totaling $2.9 million, and for facility lease deposits totaling $0.3 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 a 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. On February 15, 2018, the judge granted final approval of the parties' agreed resolution and the case will be dismissed following implementation of the parties' settlement. This matter was resolved without any material adverse effect on our business, consolidated financial position, results of operations, or cash flows.

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, 2017 would be approximately $32.7 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 $12.7 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. As of December 31, 2017, approximately $0.6 million of severance was accrued for two former executives.

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 nature of the segment's operations, operating results are regularly reviewed by the Firm's chief operating decision maker ("CODM"), and discrete financial information is 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.

Historically, our Tech segment has included the results of operations for Global, a wholly-owned subsidiary located in Manila, Philippines. During the year ended December 31, 2017, Kforce completed the sale of Global's assets. This sale did not meet the definition of discontinued operations. Kforce recorded a $3.3 million gain on sale of Global's assets, which was recorded in Selling, general and administrative expenses within the accompanying Consolidated Statements of Operations and Comprehensive Income.

Historically, and for the year ended December 31, 2017, Kforce has generated only sales and gross profit information on a segment basis. 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
2017				
Net service revenues				
Flex revenues	**$887,675**	**$318,294**	**$104,294**	**$1,310,263**
Direct Hire revenues	**19,836**	**27,841**	**—**	**47,677**
Total Net service revenues	**$907,511**	**$346,135**	**$104,294**	**$1,357,940**
Gross profit	**$257,118**	**$118,479**	**$ 32,459**	**$ 408,056**
Operating expenses				**343,962**
Income before income taxes				**$ 64,094**
2016				
Net service revenues				
Flex revenues	$863,434	$307,245	$ 98,628	$1,269,307
Direct Hire revenues	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 before income taxes				$ 55,955
2015				
Net service revenues				
Flex revenues	$873,609	$294,186	$ 97,372	$1,265,167
Direct Hire revenues	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 before income taxes				$ 71,672

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table provides quarterly information for the years ended December 31, 2017 and 2016 (in thousands, except per share amounts):

Three Months Ended	March 31,	June 30,	September 30,	December 31,
2017				
Net service revenues	**$333,992**	**$340,309**	**$341,053**	**$342,586**
Gross profit	**97,135**	**103,919**	**104,375**	**102,627**
Net income	**5,902**	**11,144**	**10,099**	**6,140**
Earnings per share—basic	**$0.23**	**$0.44**	**$0.40**	**$0.25**
Earnings per share—diluted	**$0.23**	**$0.44**	**$0.40**	**$0.24**
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

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016	2015
Cash paid during the year for:			
Income taxes, net	**$24,330**	$21,324	$25,395
Interest, net	**$ 3,518**	$ 2,101	$ 1,609
Non-Cash Financing and Investing Transactions:			
Receivable for sale of Global's assets	**$ 1,979**	$ —	$ —
Equipment acquired under capital leases	**$ 937**	$ 1,153	$ 1,470
Unsettled repurchases of common stock	**$ 898**	$ 935	$ 1,012
Employee stock purchase plan	**$ 522**	$ 669	$ 578
Shares tendered in payment of exercise price of stock options	**$ —**	$ 63	$ —

CORPORATE INFORMATION

BOARD OF DIRECTORS

David L. Dunkel
Chairman and
Chief Executive Officer,
Kforce Inc.

John N. Allred
President, A.R.G., Inc.

Richard M. Cocchiaro

Ann E. Dunwoody
President
First 2 Four, LLC

Mark F. Furlong
President and
Chief Executive Officer (Ret.),
BMO Harris Bank N.A.

Randall A. Mehl
President and
Chief Investment Officer,
Stewardship Capital Advisors, LLC

Elaine D. Rosen
Nonexecutive Chair of the Board,
Assurant, Inc.
Chair of the Board,
The Kresge Foundation

N. John Simmons
Chief Executive Officer,
Growth Advisors LLC

Ralph E. Struzziero
Consultant

Howard W. Sutter
Vice Chairman,
Kforce Inc.

A. Gordon Tunstall
President and
Chief Executive Officer,
Tunstall Consulting, Inc.

EXECUTIVE AND SENIOR OFFICERS

David L. Dunkel
Chairman and
Chief Executive Officer

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
General Counsel and
Chief Talent Officer and
Assistant Secretary

Denis Edwards
Chief Information Officer

Andrew G. Thomas
Chief Field Services Officer

CORPORATE COUNSEL
Holland & Knight LLP
Tampa, Florida

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Tampa, Florida

TRANSFER AGENT
Computershare Investor Services
P.O. Box 505000
Louisville, KY 40233-5000
www.computershare.com/investor
Shareholder services:
1 (877) 373-6374

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 24, 2018 at 8:00 a.m. EST 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.

KFORCE—60 TOTAL OFFICES TO SERVE YOU.

To find the location nearest you, visit our Website at www.kforce.com or call (800) 395-5575.
Corporate Headquarters: 1001 East Palm Avenue, Tampa, Florida 33605, (813) 552-5000

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Phoenix

CALIFORNIA
Campbell (San Jose)
Costa Mesa
Culver City
Glendale
La Jolla (San Diego)
San Francisco
San Rafael
San Ramon
Woodland Hills

COLORADO
Greenwood Village (Denver)

CONNECTICUT
East Hartford
Shelton
Stamford

DISTRICT OF COLUMBIA
Washington

FLORIDA
Doral (Miami)
Orlando
Sunrise (Ft. Lauderdale)
Tampa

GEORGIA
Atlanta (2)

ILLINOIS
Chicago
Rolling Meadows

INDIANA
Indianapolis

KANSAS
Overland Park (Kansas City)

KENTUCKY
Louisville

MARYLAND
Linthicum (Baltimore)

MASSACHUSETTS
Boston
Burlington
Westborough

MICHIGAN
Grand Rapids
Southfield (Detroit)

MINNESOTA
Bloomington (Minneapolis)

MISSOURI
St. Louis

NEW JERSEY
Parsippany

NEW YORK
New York

NORTH CAROLINA
Charlotte
Morrisville (Durham)

OHIO
Cincinnati
Dublin (Columbus)
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Portland

PENNSYLVANIA
King of Prussia (Philadelphia)
Philadelphia
Pittsburgh

RHODE ISLAND
Providence

TEXAS
Addison (Dallas)
Austin (2)
Fort Worth
Houston
San Antonio (2)

UTAH
Murray (Salt Lake City)

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