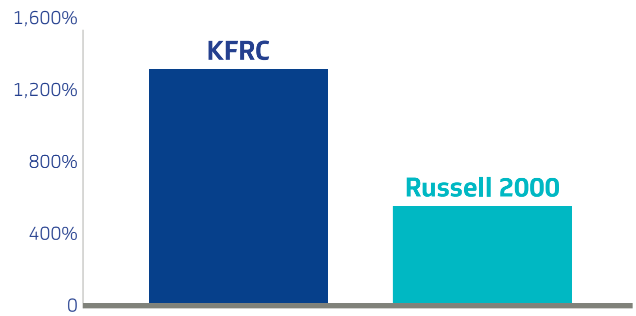
KFORCE®

Annual
Report
2020

We Love What We Do. We Love Who We Serve.®

Kforce is a professional staffing services and solutions firm that specializes in the areas of Technology and Finance and Accounting. Each year, through our network of field offices located throughout the U.S. and two national delivery centers, we provide opportunities for over 30,000 highly skilled professionals who work with over 3,000 clients, including a significant majority of the Fortune 500. Founded in 1962, our name stands for KnowledgeForce® which describes the customer-centric **Kforce Knowledge Process** that delivers high-touch, relationship-driven results backed by progressive technologies. At Kforce, our promise is to deliver great results through strategic partnership and knowledge sharing.

Our total shareholder return (TSR) since going public in August 1995 has been approximately 1,310%, roughly 2.3 times greater than the Russell 2000 over the same period.



Kforce TSR vs. Russell 2000 Index stock performance from 8/15/95 (IPO) to 12/31/20

TECHNOLOGY

As the 5th largest technology staffing firm in the U.S., we engage more than 14,000 consultants annually in technology roles on a temporary, consulting and direct-hire basis. Our Technology professionals range from project managers and managed solution providers to developers, security engineers, data and network architects and technicians:

- **APPLICATION DEVELOPMENT** supports applications and systems software creation and maintenance, including web, mobile and client service.
- **SECURITY** for today's complex network infrastructure and evolving threats.
- **PROJECT MANAGEMENT AND SOLUTIONS** offers a full suite of functional professionals to support the full scope of your initiative.
- **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.
- **MANAGED TEAMS AND SOLUTION** resources to help drive full scope and ownership of your most complex technological needs.

FINANCE AND ACCOUNTING

As the 5th largest finance and accounting staffing firm in the U.S., we engage more than 11,000 highly skilled professionals annually in finance and accounting roles on a temporary, consulting and direct-hire basis, in addition to select large scale opportunities in professional administration. Our Finance and Accounting professionals are a blend of these roles, but we are shifting focus toward higher skilled analytics and decision support:

- **STRATEGIC** resources supporting senior level decision making, from financial, risk and M&A to business intelligence and data science.
- **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.

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, 2020 for additional information regarding forward-looking statements.

TO OUR FELLOW SHAREHOLDERS, CLIENTS, CONSULTANTS AND EMPLOYEES:

Given the devastating effects of COVID-19, the year 2020 will be remembered as one of the greatest health and economic crises in modern times. The suddenness of the COVID-19 pandemic and its dramatic effect on businesses, communities and families across the world cannot be overstated. The devastating impacts of the economic and health crisis were followed by civil unrest and other social issues, political turmoil and a change in administration. Disruption to our daily lives has been very significant. Reflecting back and considering all of these challenges our nation and world endured, it is remarkable to see how we have adapted, persevered, and in some cases, prospered. Through it all, the heroes are those who have stepped up through incredible personal sacrifice to serve others experiencing crisis.

Against this incredibly challenging backdrop, our talented team of "Kforcers" delivered extraordinary financial results and advanced many of our strategic objectives while adapting to the dramatic changes in their own lives. They also found time in their hearts to serve others in their communities through our Corporate Social Responsibilities (CSR) initiatives; we are immensely proud of our team.

Among our strategic and financial accomplishments in 2020:

- Overall revenues and earnings per share grew approximately 3% on a billing day basis and 14%, respectively.
- After a mild decline at the outset of the pandemic, our tech flex business began to improve in June 2020 with a resumption of growth on a year-over-year basis in the fourth quarter.
- We retired all outstanding net debt in 2020 and ended the year with net cash of $3.5 million and trailing twelve months EBITDA of roughly $97 million.
- Our total shareholder return over the last three years of nearly 80% was #1 in our peer group for the second consecutive year.
- Successfully implemented two of three waves of technological functionality associated with our talent relationship management capability, with the last wave successfully implemented in the first quarter of 2021.
- Laid the foundation, we believe, for an improved quality revenue stream in the future with outsized growth in our managed teams, managed solutions technology offering and began the migration of our FA business into higher-value skill sets in 2021.
- We seamlessly transitioned our entire workforce to work remotely within 24 hours and have since significantly progressed our Kforce Reimagined efforts to provide a more flexible hybrid work environment and enhanced experience to our people, clients and consultants.
- Intensified our efforts with respect to diversity, equity and inclusion by instituting leadership and engaging independent third-party experts to assist Kforce in further building out our long-term strategy and achieving our mission.
- Our customer and employee satisfaction levels are at an all-time high as measured by our Net Promoter Score, Glassdoor and internal surveys.
- Shortly after year-end, our Board of Directors approved a 15% increase to our dividend from $0.80 per share to $0.92 per share.
- Advanced our Board refreshment activities by welcoming Ms. Catherine Cloudman and Mr. Derrick Brooks as the newest members of our outstanding Board of Directors.

2020 BUSINESS LINE PERFORMANCE

Revenues for our technology segment (approximately 75% of overall revenues) of $1.05 billion declined nearly 1% in 2020, per billing day, versus 2019 levels. Staffing Industry Analysts (SIA) expected the domestic technology staffing market to decline 9% in 2020, which suggests to us that we were successful again in 2020 in capturing additional market share. Key to our success was the strategic decision to construct a client portfolio that is comprised of primarily Fortune 500 and similarly situated companies where our scale, depth of service offerings and reputation in the market for providing superior quality are aligned with our clients' interests. For these large, sophisticated companies, our efforts are focused on assisting them attain their strategic objectives by providing critical technology talent and solutions. Along those lines, we have also made solid progress maturing our managed teams and solutions capability by investing significantly in resources dedicated to this offering. Our clients are increasingly looking to companies such as Kforce to assume a greater role in more complex technical projects and serve as a cost-efficient yet effective alternative or complement to other larger consulting and solutions organizations. As a result, we experienced great market receptivity and growth in this offering in 2020 and are continuing to invest in this capability in 2021. We expect a robust demand environment in the more than $30 billion domestic technology staffing market and greater than $100 billion market for IT solutions.

Revenues for our finance and accounting (FA) segment (approximately 25% of overall revenues) of approximately $348 million increased nearly 20% in 2020, per billing day, compared to 2019 levels. Our client relationships and capability to source talent very quickly at scale allowed us to be successful supporting several COVID-19 government-sponsored initiatives, which generated approximately $115 million in revenue in 2020. We have intensified our efforts to migrate this business towards more highly skilled assignments such as analytics and decision-support roles that are less susceptible to technological change and automation and more synergistic with our technology business.

In addition to the solid top line performance in 2020, we have experienced higher profitability levels against our previously communicated operating margin targets and achieved 2020 EPS of $2.62. We believe the improving quality of our revenue stream, continued improvements in associate productivity, technology investments and ongoing structural reductions in operating costs will continue to drive enhanced profitability levels. As a result, when we reported our fourth quarter 2020 results, we raised our operating margin targets by 20 basis points from prior levels.

LOOKING AHEAD

As we look to 2021, we are very excited about our strategic position and ability to execute within what we believe will be a continued strong demand environment for our services. It's our belief that the pandemic has exponentially elevated and accelerated the imperative for companies to rapidly digitize their businesses, transform business models and drive productivity gains through technology investment.

We also believe the macro and secular trends play to the heart of the position of Kforce as a technology and professional services and solutions firm. We will continue to place a priority on improving associate productivity while allocating capital to grow our technology business, especially in our managed teams and managed solutions practice.

We have built an exceptional team and armed them with a technology-enabled operating model that, we believe, will allow us to outperform the market on a sustained basis. Foundational to our expectations for 2021 is (i) continued strong growth in our technology business, (ii) expected revenue declines in our government-sponsored COVID-19 business compared to 2020, (iii) the strategic migration of our FA business into higher-skilled areas such as analytical and decision support and (iv) enhanced profitability levels.

- Revenue of $1.368 billion to $1.430 billion
- Operating margin of 6.0% to 6.3%
- Earnings per share of $2.68 to $3.00

As our revenue mix evolves, we would expect to enter 2022 with 85% our revenues focused in technology.

SOCIAL RESPONSIBILITY

Our CSR efforts reflect our desire to "Empower people through Knowledge Sharing®" with a focus on charitable organizations that provide education, human services and community development, our three CSR pillars. Despite our associates working remotely in 2020, they remained dedicated to improving their communities throughout the year. This commitment was seen in successful efforts to raise awareness and much needed funds for organizations such as American Heart Association, Best Buddies and Feeding America. Contactless school supplies and food drives for those in need were also held throughout the pandemic, showcasing the Firm's continued focus on our Core Value of Stewardship. We continued hosting our annual Kforce Kids' STEM Fairs virtually, which advances our commitment to educating the next generation of innovators, creators and experts. Our CSR efforts are also seen in our focus on the environment by being mindful of our impact and seizing every opportunity to be eco-friendly. In 2020, Kforce's headquarters became ENERGY STAR® certified, which means our Tampa office performs in the top 25% of buildings nationwide due to the year-round maintenance and services of our facilities team. This certification is just one small part of how we're working hard to conserve the environment for years to come.

Our mission is to establish and promote an authentic culture of diversity, equity and inclusion (DE&I) within Kforce. In 2020, we intensified our DE&I efforts by appointing leadership responsible for overseeing the development of our strategies and objectives. We have also engaged independent third-party experts to assist Kforce in conducting a comprehensive review of our DE&I program including, but not limited to, building an increasingly robust pipeline of diverse candidates in our talent acquisition efforts (for both our associates and consultants), supplier diversity practices, training and mentorship programs as well as the focus of our stewardship activities. This review is intended as a means to strengthen and refine existing significant activities in these areas.

Thank you for your interest in and support of Kforce. Our total shareholder return since going public in August 1995 has been approximately 1,310%, roughly 2.3 times greater than the Russell 2000 over the same period. Given that we are in the early innings of the massive digital transformation of the U.S. economy, we believe the future of Kforce has never been brighter. The results that we are experiencing are the result of a lot of hard work, and tough decisions, by our team and I am grateful for their tenacity. While we have much more to do, we would like to say thank you to each and every member of our field and corporate teams, and to our clients and consultants, 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 ("Consolidated Financial Statements") incorporated into this Annual Report.

Years Ended December 31,	**2020**	2019(1)	2018	2017(2)	2016(3)
(In thousands, except per share amounts)					
Revenue	**$1,397,700**	$1,347,387	$1,303,937	$1,253,646	$1,221,078
Gross profit	**396,224**	395,038	386,487	375,597	376,393
Selling, general and administrative expenses	**310,713**	314,167	307,250	308,313	318,970
Depreciation and amortization	**5,255**	6,050	6,836	7,266	7,549
Other expense, net	**5,044**	3,425	4,521	5,100	3,101
Income from continuing operations, before income taxes	**75,212**	71,396	67,880	54,918	46,773
Income tax expense	**19,173**	16,830	17,004	25,324	19,751
Income from continuing operations	**56,039**	54,566	50,876	29,594	27,022
Income from discontinued operations, net of tax	**—**	76,296	7,104	3,691	5,751
Net income	**$ 56,039**	$ 130,862	$ 57,980	$ 33,285	$ 32,773
Earnings per share—basic, continuing operations	**$2.67**	$2.35	$2.05	$1.17	$1.04
Earnings per share—diluted, continuing operations	**$2.62**	$2.29	$2.02	$1.16	$1.03
Weighted average shares outstanding—basic	**20,983**	23,186	24,738	25,222	26,099
Weighted average shares outstanding—diluted	**21,395**	23,772	25,251	25,586	26,274
Dividends declared per share	**$0.80**	$0.72	$0.60	$0.48	$0.48

As of December 31,	**2020**	2019	2018	2017	2016
(In thousands)					
Cash and cash equivalents	**$ 103,486**	$ 19,831	$ 112	$ 379	$ 1,482
Working capital	**$ 230,726**	$ 160,271	$ 158,104	$ 161,726	$ 135,353
Total assets	**$ 479,049**	$ 381,125	$ 379,908	$ 384,304	$ 365,421
Total outstanding borrowings on credit facility	**$ 100,000**	$ 65,000	$ 71,800	$ 116,523	$ 111,547
Total long-term liabilities	**$ 190,948**	$ 128,898	$ 121,219	$ 166,308	$ 160,332
Stockholders' equity	**$ 179,935**	$ 167,263	$ 168,331	$ 134,277	$ 121,736

(1) SG&A expenses for the year ended December 31, 2019 include $2.0 million of severance and other costs due to actions taken as a result of the GS segment divestiture, which negatively impacted SG&A.

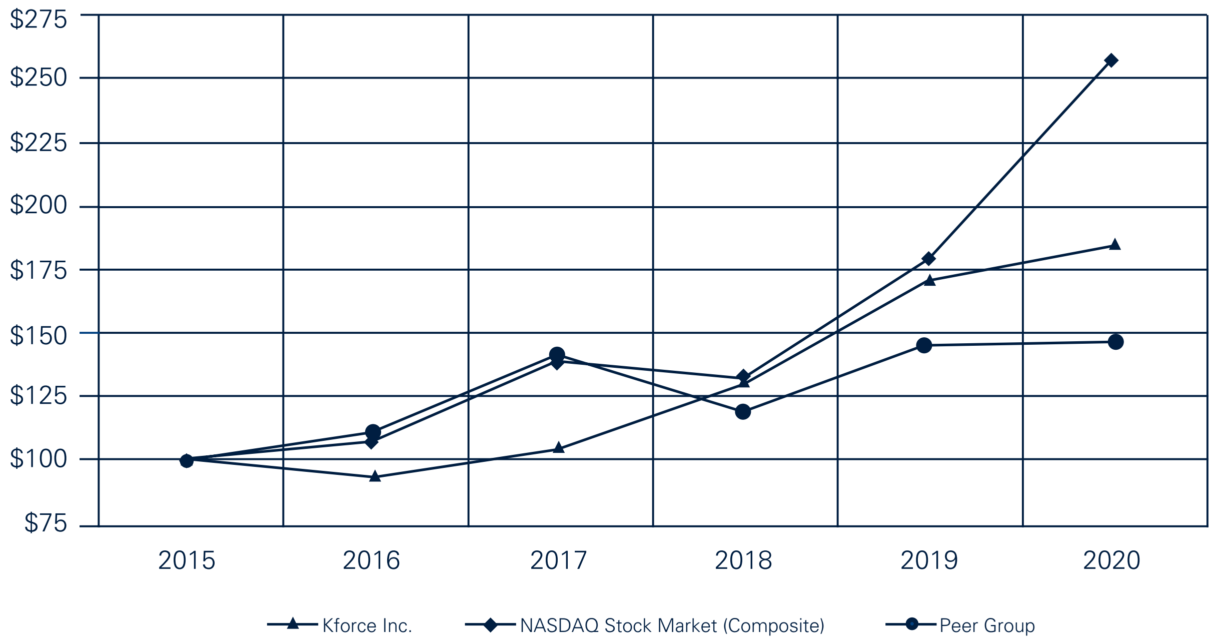
(2) The Tax Cuts and Jobs Act ("TCJA") was enacted in December 2017, which reduced the U.S. federal corporate tax rate from 35.0% to 21.0% in 2018. As a result, we revalued our net deferred income tax assets and recorded $3.6 million of additional income tax expense from continuing operations during the year ended December 31, 2017.

(3) 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 SG&A.

During the year ended December 31, 2019, Kforce completed the sale of the GS segment and the results of operations for the GS segment have been presented as discontinued operations for all of the years presented above. Refer to Note 2 — "Discontinued Operations" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a more detailed discussion.

STOCK PRICE PERFORMANCE

The following graph compares the cumulative five-year total return on our common stock, the NASDAQ Stock Market (U.S.) Index and our Peer Group using the value of an investment of $100 on December 31, 2015 with dividends fully reinvested. All returns are weighted based on market capitalization at the end of each discrete measurement period. Historical stock prices of our common stock are not necessarily indicative of future stock price performance.



Index	2015	2016	2017	2018	2019	2020
Kforce Inc.	$100.0	$ 93.6	$104.7	$130.5	$171.1	$185.6
NASDAQ Stock Market (Composite)	100.0	107.5	137.9	132.5	179.2	257.4
Peer Group (1)	100.0	112.1	139.6	119.3	145.8	146.3

(1) Peer Group:

AMN Healthcare Services, Inc.
ASGN Incorporated
Cross Country Healthcare, Inc.
Computer Task Group, Incorporated
The Hackett Group, Inc.
Heidrick & Struggles International, Inc.
Huron Consulting Group, Inc.
Kelly Services, Inc.
Korn/Ferry International
Manpower Group Inc.
Resources Connection, Inc.
Robert Half International Inc.
True Blue, Inc.
Volt Information Sciences, Inc.

The Committee utilizes a peer group of companies as a source for executive compensation benchmarking data and comparisons to Kforce's executive compensation levels; for insight into external compensation practices; and for determining specific financial objectives for our performance-based compensation. Additionally, our peer group is used to determine annual equity LTI compensation levels based on our relative TSR performance.

The Committee focuses on selecting peers that are publicly traded professional staffing companies active in recruiting and placing similar skill sets at similar types of clients, including companies we consider to be our direct business competitors. 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. According to a report published by Staffing Industry Analysts in 2020, Kforce is one of the 15 largest publicly traded specialty staffing firms in the U.S., so the size of our peer companies vary considerably. Therefore, the Committee selects other peers that are similar in terms of size (revenue and market capitalization), but may not be in the staffing industry. The primary criteria for selection include customers, revenue footprint, geographical/domestic presence, talent, complexity of operating model and companies with which we compete for executive level talent.

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

Holders of Common Stock

Our common stock trades on the NASDAQ using the ticker symbol "KFRC". As of February 23, 2021, there were 144 holders of record.

Purchases of Equity Securities by the Issuer

In March 2020, the Board approved an increase in our stock repurchase authorization bringing the then-available authorization to $100.0 million. Purchases of common stock under the Plan are subject to certain price, market, volume and timing constraints, which are specified in the plan. As a reaction to the COVID-19 pandemic, Kforce suspended open market purchases of shares in the early part of the second quarter of 2020. The following table presents information with respect to our repurchases of Kforce common stock during the three months ended December 31, 2020:

Period	Total Number of Shares Purchased (1)(2)(3)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2020 to October 31, 2020	4,949	$37.50	—	$84,540,188
November 1, 2020 to November 30, 2020	1,362	$40.24	—	$84,540,188
December 1, 2020 to December 31, 2020	135,079	$42.57	—	$84,540,188
Total	141,390	$42.37	—	$84,540,188

(1) Includes 4,949 shares of stock received upon vesting of restricted stock to satisfy tax withholding requirements for the period October 1, 2020 to October 31, 2020.
(2) Includes 1,362 shares of stock received upon vesting of restricted stock to satisfy tax withholding requirements for the period November 1, 2020 to November 30, 2020.
(3) Includes 135,079 shares of stock received upon vesting of restricted stock to satisfy tax withholding requirements for the period December 1, 2020 to December 31, 2020.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of December 31, 2020, we had $100.0 million outstanding under our credit facility. Refer to Note 14 — "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 1, 2020 would have had no effect on our annual interest expense because we had no variable debt at December 31, 2020.

On April 21, 2017, Kforce entered into a forward-starting interest rate swap agreement with Wells Fargo Bank, N.A. ("Swap A") to mitigate the risk of rising interest rates on the Firm's financial statements. Swap A has a rate of 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 Swap A. The effective date of Swap A is May 31, 2017, and the maturity date is April 29, 2022. The notional amount of Swap A was $65.0 million and decreased to $25.0 million at May 2020, and will remain at that amount through maturity.

On March 12, 2020, Kforce entered into a forward-starting interest rate swap agreement with Wells Fargo Bank N.A. ("Swap B"). Swap B was effective on March 17, 2020 and matures on May 30, 2025. Swap B has a fixed interest rate of 0.61% and a notional amount of $75.0 million and increases to $100.0 million in May 2022, and subsequently decreases to $75.0 million and $40.0 million in May 2023 and May 2024, respectively. The increases in the notional amount of Swap B correspond to the decreases in the notional amount of Swap A.

LIBOR is expected to be discontinued after 2021. In March 2020, the FASB issued authoritative guidance, which provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions that reference LIBOR and are affected by reference rate reform if certain criteria are met. Entities may adopt the provisions of the new standard as of the beginning of the reporting period when the election is made between March 12, 2020 through December 31, 2022. We adopted this optional standard effective January 1, 2020 using the prospective method, and utilized the optional expedients for cash flow hedges to assume that a hedged forecasted transaction is probable of occurring and that the reference rate will not be replaced for the remainder of a hedging relationship.

Company Overview

Kforce Inc. and its subsidiaries (collectively, "Kforce") provide professional staffing services and solutions to our clients on both a temporary ("Flex") and permanent ("Direct Hire") basis through our Technology ("Tech") and Finance and Accounting ("FA") segments. While our workforce has been working remotely since March 2020 due to the COVID-19 pandemic, our physical worksites include our corporate headquarters in Tampa, Florida and approximately 40 field offices located throughout the U.S. Kforce was incorporated in 1994 and completed its Initial Public Offering in August 1995, but its predecessor companies have been providing staffing services since 1962.

Kforce serves clients across many industries and geographies as well as organizations of all sizes, with a particular focus on serving Fortune 1000 and other large companies. We believe that our portfolio of service offerings is a key contributor to our long-term financial stability. Our 10 largest clients represented approximately 28% of revenue for the year ended December 31, 2020.

Our efforts to strategically position Kforce as a professional and technical services company has resulted in several divestitures over the last 10 years. Most recently, during 2019, Kforce sold its Government Solutions ("GS") segment, which has been reported as discontinued operations in the consolidated financial statements. Except as specifically noted, our discussions in this report exclude any activity related to the GS segment. Refer to Note 2 — "Discontinued Operations" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a more detailed discussion.

Our quarterly operating results can be affected by:

- the number of billing days in a particular quarter;
- the seasonality of 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.

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, data management, business and artificial intelligence, machine learning and network architecture and security. One of our strategies over the last several years has been to invest in our managed teams and solutions capabilities in order to provide a higher-value, differentiated offering to our clients. Kforce has been successfully winning these more complex technology projects due to, we believe, the strong long-standing partnerships we have built with our clients and our reputation for delivering quality services. Within our Tech segment, we provide services to clients in a variety of industries with a diversified footprint in, among others, financial and business services, communications and technology. Revenue for our Tech segment decreased 0.8% to $1.0 billion in 2020 on a year-over-year basis. The average bill rate for Tech Flex in 2020 was approximately $79 per hour, which increased 4.3%, as compared to 2019. Our average assignment duration for Tech Flex is nearly 10 months, which has steadily increased over the last several years. Tech Flex continues to benefit from improving bill rates and longer assignment durations, which we believe is related to the acute labor shortage, particularly the shortage of labor for highly-skilled positions. In addition to our capability to source highly qualified U.S. domestic technology talent, we believe an important differentiator in a candidate-constrained environment is our capability to source highly qualified foreign-born talent working domestically in the U.S. in higher-end technology roles. We operate this capability on a centralized basis, which allows us to operate consistently with a keen focus on ensuring compliance in this highly regulated space.

The September 2020 report published by Staffing Industry Analysts ("SIA") stated that temporary technology staffing is expected to experience growth of 7% in 2021. Digital transformation, as a general trend, is driving organizations across all industries to increase their technology investments as competition and the speed of change intensifies. Nontraditional competitors are also entering new emerging technologies and markets. This development puts increased pressure on companies to invest in innovation and the evolution of their business models. We believe the secular drivers of technology spend generally remain intact with many companies becoming increasingly dependent on the efficiencies provided by technology and the need for innovation to support business strategies and sustain relevancy in today's rapidly changing marketplace. At the macro level, demand is also being driven by an ever-changing and complex regulatory and employment law environment, which increases the overall cost of employment for many companies. We believe that these factors, among others, are continuing to drive companies to look to temporary staffing providers, such as Kforce, to meet their human capital needs.

We are pleased with our above-market performance in our Tech business in 2020 and remain very excited about our strategic position and ability to execute in 2021, in what we believe will be a strong demand environment for our services.

FA Segment

Our FA segment provides both Flex and Direct Hire services to our clients in areas such as accounting, transactional finance (e.g. payables, receivables, business and cost analysis), financial analysis and reporting, taxation, budgeting, loan servicing, professional administration, 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 diversified footprint in the financial services, healthcare and manufacturing sectors. Revenue for our FA segment increased 20.2% to $348.1 million in 2020 on a year-over-year basis primarily as a result of certain contracts we secured in the second quarter to support government-sponsored COVID-19 related initiatives (the "COVID-19 Business"). These contracts contributed $114.7 million in revenue in 2020. Excluding the contribution of revenue from our COVID-19 Business, our FA segment would have decreased 19.4% on a year-over-year basis. The average bill rate for FA Flex in 2020 was approximately $34 per hour, which decreased 6.3% as compared to 2019. This decrease is primarily a result of lower pay rates on the COVID-19 Business.

Strategically, in late 2020, we began intensifying our efforts to migrate our FA Flex business toward higher-end skill sets that are less susceptible to technological change, location and automation such as analytics and decision-support roles. This strategic effort will continue into 2021 and we expect will result in natural assignment ends of lower skilled roles where strategic client relationships do not exist.

The September 2020 report published by SIA stated that finance and accounting temporary staffing is expected to experience growth of 12% in 2021. For Kforce, we expect overall FA revenues in 2021 to decline from 2020 levels due to expected declines in our COVID-19 Business as well as the migration of our FA Flex business.

Flex Revenue

Flex revenue represents approximately 97% of total revenue over the last three fiscal years. We provide our clients with qualified individuals ("consultants"), or teams of consultants in the case of a project-based solution, on a temporary basis when the consultant's set of skills and experience is the right match for our clients. We utilize a diversified set of recruitment platforms and tools to identify and engage with candidates. The vast majority of our consultants are directly employed by Kforce, including domestic and foreign workers sponsored by Kforce, with a smaller composition representing qualified independent contractors. 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 or teams of consultants being formed; (3) ensure excellence in delivering and managing the client-consultant relationship; and (4) have access to a sufficient pool of qualified consultants. We believe proper execution by our associates and consultants directly impacts the longevity of the assignments, increases the likelihood of generating repeat business with our clients and fosters a better experience for our consultants, which has a direct correlation to consultant redeployment.

The key drivers of Flex revenue are the number of consultants on assignment, billable hours, the bill rate per hour and, to a limited extent, the amount of billable expenses incurred by Kforce. Our Flex gross profit is determined by deducting related costs of employment for consultants, including compensation, payroll taxes, certain fringe benefits and independent contractor costs from Flex revenue. Associate and management commissions, compensation, payroll taxes and other fringe benefits are included in selling, general and administrative expenses ("SG&A"), along with other customary costs such as administrative and corporate costs.

Direct Hire Revenue

Our Direct Hire business involves locating qualified individuals ("candidates") for permanent placement with our clients. Direct Hire revenue represents approximately 3% of total revenue over the last three fiscal years. Although it is a smaller portion of our business, it continues to be an important capability in ensuring that we have the flexibility to meet the talent needs of 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, revenue is earned only 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 determined or estimated at the time of placement.

The key drivers of Direct Hire revenue are the number of placements and the associated placement fee. Direct Hire revenue also includes conversion revenue, which may occur when a consultant initially assigned to a client on a temporary basis is later converted to a permanent placement for a fee. Direct Hire revenue is recorded net of an allowance for "fallouts," which occurs when a candidate does not complete the contingency period (typically 90 days or less). There are no consultant payroll costs associated with Direct Hire placements; therefore, all Direct Hire revenue increases gross profit by the full amount of the fee, which constitutes a disproportionate percentage of our gross profit. Commissions, compensation and benefits for Direct Hire associates are included in SG&A.

Industry Overview

The professional 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 2020 indicated that, in the U.S., Kforce is one of the 15 largest publicly-traded specialty staffing firms, the fifth largest technology temporary staffing firm and the fifth largest finance and accounting temporary staffing firm.

From an economic standpoint, temporary employment figures and trends are important indicators of staffing demand, based on data published by the Bureau of Labor Statistics and SIA. The penetration rate (the percentage of temporary staffing to total employment) and unemployment rate were 1.9% and 6.7%, respectively, in December 2020, down from 2.0% (penetration) and up from 3.5% (unemployment), respectively, in December 2019. Temporary help employment was down 7.6% year-over-year as of December 2020, and total non-farm employment was down 6.2% year-over-year. In addition, the college-level unemployment rate, which we believe serves as a proxy for professional employment and therefore aligns well with the consultant and candidate population that Kforce most typically serves, was 3.8% in December 2020, which represented an increase from December 2019. Further, we believe that the unemployment rate in the specialties we serve, especially in certain technology skill sets, is significantly lower than the published averages. We believe this speaks to the overall secular drivers of demand in technology, the critical nature of the technology initiatives being driven by our clients, as well as the challenges of finding an adequate supply of qualified talent.

According to the September 2020 SIA report, the technology temporary staffing industry and finance and accounting temporary staffing industry are expected to generate projected revenues of $31.7 billion and $7.8 billion, respectively, in 2021. Based on these projected revenues, our current market share is approximately 3%. Our business strategies are focused on expanding our share of the U.S. temporary staffing industry and investing in our capability to provide higher level IT services and solutions. According to SIA, the addressable market in the technology solutions space was approximately $29.5 billion in 2020.

Business Strategies

Our primary objectives are driving long-term shareholder value by achieving above-market revenue growth, making prudent investments to enhance our efficiency and effectiveness within our operating model and significantly improving levels of operating profitability. We believe the following strategies will help us achieve our objectives.

Evolving our Managed Services and Solutions Offerings. Our clients have increasingly been looking for firms such as Kforce to assume a greater level of responsibility in assisting them with their digital transformation efforts. The total addressable market in the higher end IT services and solutions is significantly larger than in the traditional technology staff augmentation market. The use of firms such as Kforce, which can provide cost effective access to highly skilled talent, is a significant driver for this increased demand. We are leveraging the longevity of our relationships, primarily with Fortune 1000 companies, and our understanding of existing client needs to provide talent beyond traditional staff augmentation into areas including resource and capacity management as well as managed services and solutions. As an example, we have an engagement with a communications company to assist with an upgrade of its legacy infrastructure and migration to the cloud to improve its end customer's experience. Kforce was responsible for defining the cloud strategy, from architecture to the implementation roadmap, and assisted with cloud-native development, data security, compliance and reporting. We are continuing to make significant headcount investments in defined practice areas and our delivery assurance capabilities to grow this offering organically. We also believe there may be inorganic growth opportunities to supplement our existing business.

Further Improve the Quality of our Revenue Stream. In addition to the significant progress we have made in evolving our managed services and solutions offering, we are also focused on further improving the quality of our revenue stream through the migration of our FA business towards more highly skilled assignments in decision-support and analytical roles that are less susceptible to technological change, location and automation. Historically, we have supported professional administrative roles such as customer service, data entry, and call center. We do not intend on focusing our efforts on these, among other, types of roles in 2021 and beyond unless there is a strategic client relationship or other strategic rationale.

Reimagining a More Flexible Work Environment. The COVID-19 pandemic has caused what some have referred to as a global work-from-home experiment. For Kforce, our associates have been working remotely since March 2020. Based on our frequent communications and dialogue with our associates, they have been largely successful working in this environment and have proven to exercise great ingenuity in continuing to support our clients and consultants. It was our view, early on in the COVID-19 pandemic, that the work-from-home experiment was likely to forever change the future work environment. Given this view, we initiated a "Kforce Reimagined" effort to begin positioning Kforce to provide a more flexible work environment for our associates, which will involve streamlining our real estate footprint and investing in technology and other tools to provide a seamless in-office and remote experience. The culmination of these efforts should provide significant contributions to improving productivity and profitability.

Improving the Productivity of our Talent. We believe that it is critical to provide our associates with high quality tools to effectively and efficiently perform their roles, better evaluate business opportunities and advance the value we bring to our clients and consultants. We continue to enhance our sales and delivery methodologies and processes in ways we believe will allow us to better evaluate and shape business opportunities with our clients as well as train our sales and delivery associates to follow our consistent and uniform methodology.

During 2020, we continued developing and began implementing a new talent relationship management (TRM) system that we expect will better leverage our delivery strategies and processes and improve our capabilities. We have agilely deployed our TRM system and the final release of the initial functionality is expected to be completed in the first quarter of 2021. Going forward, we will continue to make enhancements to our business and data intelligence capabilities. These investments are part of a multi-year effort to 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 and the scalability of our organization.

Critical to improving the performance of our associates is the development of a strong management team. A key pillar of our talent development strategy is to provide our leaders with the skills necessary to lead their teams effectively. During 2020, we initiated leadership development activities that included ongoing training both specific to our industry and generally on leading people. These activities will be ongoing and, we believe, will lead to improved associate performance and higher retention levels of our associates.

In 2021, we will also begin an assessment of our middle and back office capabilities that will support the investments we have made in our front office and we believe will ultimately bring significant efficiency and effectiveness to our back office support organization.

Enhancing our Client Relationships. We strive to differentiate ourselves by working collaboratively with our clients to better 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, which increases the intimacy we have with our clients and improves our ability to offer higher value and a broader array of services and support to our clients. To accomplish this, we align our revenue-generating talent with clients based on their experience with markets, products, industries and in the case of a managed teams and solutions offering, expertise in the related technology or project.

We measure our success in building long-lasting relationships with our clients using staffing industry benchmarks and Net Promoter Score ("NPS") surveys conducted by a specialized, independent third-party provider. Our client NPS ratings are amongst the highest in the industry and provide helpful insights from our clients on how to continue improving our relationships. We believe long-lasting relationships with our clients is a critical element in revenue growth.

Improving the Job Seeker Experience. Our consultants are a critical component of our business and essential in sustaining our client relationships. In 2020, we were able to utilize our talent community platform through WorkLLama, specifically its referral management capability, to provide us leverage in the timely sourcing of qualified candidates. We believe this seamlessly connects the candidate with the recruiter, which improves the job seeker's experience and provides a better quality candidate. 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 NPS surveys conducted by a specialized, independent third-party provider. Our consultant NPS ratings, similar to our client ratings, are well above staffing industry averages. We continually seek direct feedback from our consultants, which helps us identify opportunities to refine our services.

COMPETITION

We operate in a highly competitive and fragmented staffing industry comprised of large national and local staffing firms. The local firms are typically operator-owned, and each market generally has one or more significant competitors. Within our managed teams and solutions business, we also face competition from national and regional accounting, consulting and advisory firms and national and regional strategic consulting and systems implementation firms. We believe that our boundaryless reach within the U.S., physical presence in larger markets, concentration of service offerings in areas of greatest demand (especially technology), national delivery teams, centralized delivery channels for foreign consultants, including those obtained via the H-1B visa program which optimizes distribution and strengthens compliance, longevity of our brand and reputation in the market, along with our dedicated compliance and regulatory infrastructure, all provide a competitive advantage.

Many clients utilize Managed Service Providers ("MSP") or Vendor Management Organizations ("VMO") for the management and procurement of staffing services. Generally, MSPs and VMOs standardize processes through the use of Vendor Management Systems ("VMS"), which are tools used to aggregate spend and measure supplier performance. VMSs are also offered through independent providers. Typically, MSPs, VMOs and/or VMS providers charge staffing firms administrative fees ranging from 1% to 4% of revenue. In addition, the aggregation of services by MSPs for their clients into a single program can result in significant buying power and, thus, pricing power. Therefore, the use of MSPs by our clients has, in certain instances, resulted in margin compression, but has also led to incremental client share through our client's vendor consolidation efforts. Kforce does not currently provide MSP or VMO services directly to our clients; rather, our strategy has been to work with MSPs, VMOs and VMS providers that enable us to better extend our services to current and prospective clients.

We believe that the principal elements of competition in our industry are differentiated offerings, reputation, the availability and quality of associates, consultants and candidates, level of service, effective monitoring of job performance, scope of geographic service, types of service offerings and compliance orientation. To attract consultants and candidates, we emphasize our ability to provide competitive compensation and benefits, quality and varied assignments, scheduling flexibility and permanent placement opportunities, all of which are important to Kforce being the employer of choice. Because individuals pursue other employment opportunities on a regular basis, it is important that we respond to market conditions affecting these individuals and focus on our consultant relationship objectives. Additionally, in certain markets, from time to time we have experienced significant pricing pressure as a result of our competitors' pricing strategies, which may result in us not being able to effectively compete or choosing to not participate in certain business that does not meet our profitability standard.

REGULATORY ENVIRONMENT

Staffing firms are generally subject to one or more of the following types of government regulations: (1) regulation of the employer/employee relationship, such as wage and hour regulations, tax withholding and reporting, immigration/H-1B visa regulations, social security and other retirement, anti-discrimination, employee benefits and workers' compensation regulations; (2) registration, licensing, recordkeeping and reporting requirements; and (3) worker classification regulations.

INSURANCE

Kforce maintains a number of insurance policies including general liability, automobile liability, workers' compensation and employers' liability, liability for certain foreign exposure, umbrella and excess liability, property, crime, fiduciary, directors and officers, employment practices liability, cybersecurity, professional liability and excess health insurance coverage. These policies provide coverage subject to their terms, conditions, limits of liability and deductibles, for certain liabilities that may arise from Kforce's operations. There can be no assurance that any of the above policies will be adequate for our needs or that we will maintain all such policies in the future.

HUMAN CAPITAL MANAGEMENT

Core Values

At the heart of Kforce, as an organization, is a deep understanding and unwavering commitment to our core values, which are:

- We're a team that values one another through mutual RESPECT, earned in our daily interactions.
- INTEGRITY fuels our actions with the strength to do the right thing.
- We rely on one another and let TRUST drive our team results.
- We want to give our clients, consultants and each other EXCEPTIONAL SERVICE every chance we get.
- COMMITMENT keeps us together as one team dedicated to individual and Firm success.
- Our spirit and culture need FUN to truly thrive.
- Standing up for STEWARDSHIP & COMMUNITY with a servant's heart keeps us grounded and humble.

Commitment to Values and Ethics

Along with our core values, we act in accordance with our Code of Business Conduct and Ethics ("Code of Conduct"), which sets forth expectations and guidance for associates to make appropriate decisions. Our Code of Conduct covers topics such as anti-corruption, discrimination, harassment, privacy, appropriate use of company assets, protecting confidential information and reporting violations. The Code of Conduct reflects our commitment to operating in a fair, honest, responsible and ethical manner and also provides direction for reporting complaints in the event of alleged violations of our policies (including through an anonymous hotline).

Employees and Personnel

As of December 31, 2020, Kforce employed approximately 2,000 associates, including roughly 1,300 supporting the revenue-generating aspects of our business and approximately 700 supporting the revenue-enabling aspects. We also had approximately 11,900 consultants on assignment providing flexible staffing services and solutions to our clients. Approximately 90% of these consultants are employed directly by Kforce and 10% are qualified independent contractors. As the employer, Kforce is responsible for the employer's share of applicable social security taxes ("FICA"), federal and state unemployment taxes, workers' compensation insurance and other direct labor costs relating to our employees. The more pertinent health, welfare and retirement benefits include: comprehensive health insurance; workers' compensation benefits, retirement plan options; employee stock purchase plan and paid time off. We have no collective bargaining agreements covering any of our employees, have never experienced any material labor disruption, and are unaware of any current efforts or plans of our employees to organize.

Health and Safety

Central to our overall operating philosophy is our belief that our employees are key to achieving our business objectives; therefore, their safety is our highest priority. In keeping with this principle, we have been thoughtful and aggressive in responding to the COVID-19 pandemic as it relates to our employees. Some of the measures include:

- Requiring our associates to work remotely since March 2020;
- Prohibiting non-essential travel for all employees;
- Initiating regular communications from our executives regarding impacts of the COVID-19 pandemic, including health and safety protocols and procedures;
- Establishing new physical distancing procedures for employees and employees who need to be onsite;
- Procuring personal protective equipment, including, among other items, masks, sanitization stations, temperature-reading devices, plexiglass workstation dividers, for distribution to our associates and consultants and use in our physical workspaces;
- Distributing corporate assets, including, among other items, office chairs, computer monitors, docking stations, communication devices, to employees to enable remote work, as necessary;
- Providing a one-time subsidy to each of our associates to cover business expenses and other unanticipated needs stemming from the COVID-19 pandemic, including, among things, child-care, tutoring services;
- Enhancing our health and wellness offerings to include a digital self-care platform to help our associates with any mental health concerns;
- Investing in technologies and tools to improve the effectiveness of our associates while working remotely; and
- Improving our associate outreach efforts to detect and try to address any challenges or needs of our associates.

Talent Management and Leadership Development

Our key talent philosophy is to identify, train and develop talent from within to help ensure that we maintain a consistent operating model. A core objective is to add new associates in entry-level recruiting roles so that our new associates learn the proper foundational understanding of our business. We believe that this will result in improving productivity and increased talent retention. This approach has yielded a deep understanding among our employee base of our business, our products, and our customers, while adding new employees and ideas in support of our continuous improvement mindset.

Among our key initiatives has been our:

- Leadership Development Program, led by an independent third-party specialist, which is aimed at building the skills necessary to nurture strong relationships, maintain accountability and enhance productivity among the leaders across Kforce;
- Leadership Accelerator Program, which is a cross-functional, collaborative, skill-building program aligned with Kforce's Leader's Creed, Core Values and leadership competencies; and,
- Career Progression Program, which creates awareness of opportunities to develop and grow within Kforce by, among other things, using tools such as a digital guide to navigate career paths and required KPIs, competencies and training.

Our talent management activities also include, but are not limited to, conducting the following activities:

- Periodic performance appraisals to promote engaging and productive communications between leaders and their team members about performance, career progression and advancement opportunities;
- Calibration sessions during the performance appraisal process to help ensure consistency across Kforce in assigning appraisal ratings; and
- 9-Box exercises are conducted to evaluate our talent for targeted areas of development, assess opportunities for our talent across the Firm and for succession planning purposes.

Diversity, Equity and Inclusion Program

Kforce's diversity, equity and inclusion (DE&I) program is overseen by Andrew Thomas, Chief Marketing and Talent Officer, and led by Donald Harvey, Senior Vice President of Diversity and Inclusion, with the mission of establishing and promoting an authentic culture of diversity, equity and inclusion at Kforce.

With the assistance of independent third party specialists, Kforce is conducting a comprehensive review of our DE&I program including, but not limited to, building an increasingly robust pipeline of diverse candidates in our talent acquisition efforts (for both associates and consultants), supplier diversity practices, training and mentorship programs as well as the focus of our stewardship activities to meet the mission and objectives of our DE&I program. This review is intended as a means to strengthen and refine already significant activities in these areas.

This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying notes thereto and the Business Overview included in this Annual Report, for an overview of our operations and business environment.

EXECUTIVE SUMMARY

The following is an executive summary of what Kforce believes are highlights for 2020, which should be considered in the context of the additional discussions herein and in conjunction with the consolidated financial statements and notes thereto.

- Revenue for the year ended December 31, 2020 increased 3.3%, on a billing day basis, to $1.40 billion in 2020 from $1.35 billion in 2019. Revenue decreased 0.8% for Tech and increased 20.2% for FA.
- Flex revenue increased 4.5% on a billing day basis, to $1.36 billion in 2020 from $1.30 billion in 2019. Flex revenue decreased 0.8%, on a billing day basis, for Tech and increased 25.8%, on a billing day basis, for FA. During 2020, we secured contracts to support government-sponsored COVID-19 related initiatives that benefited FA Flex with $114.7 million in revenues for the year ended December 31, 2020. Excluding revenues from the COVID-19 Business, our FA Flex business would have declined 17.5% in 2020 on a year-over-year basis.
- Direct Hire revenue decreased 29.6% to $33.6 million in 2020 from $47.7 million in 2019.
- Gross profit margin decreased 100 basis points to 28.3% in 2020 due primarily to lower Direct Hire revenue mix. Flex gross profit margin decreased 10 basis points to 26.6% in 2020 from 26.7% in 2019. Flex gross profit margin increased 10 basis points for Tech and decreased 140 basis points for FA.
- SG&A expenses as a percentage of revenue for the year ended December 31, 2020 decreased to 22.2% from 23.3% in 2019. The decrease is primarily related to leverage from our revenue growth, continued improvements in associate productivity, reductions in certain areas such as travel and office related expenses given pandemic restrictions and overall tight management of spend.
- Income from continuing operations for the year ended December 31, 2020, increased 2.7% to $56.0 million, or $2.62 per share, from $54.6 million, or $2.29 per share, in 2019.
- The Firm returned $46.2 million of capital to our shareholders in the form of open market repurchases totaling $29.4 million, or 1.0 million shares, and quarterly dividends totaling $16.8 million, or $0.80 per share, during the year ended December 31, 2020.
- In March 2020, Kforce entered into a forward-starting interest rate swap agreement with an interest rate of 0.61%, which is added to the applicable margin under our credit facility, resulting in a notional amount of our interest rates swap of $35.0 million, for a total notional amount of $100.0 million for our two interest rate swaps. This was done to primarily reduce liquidity risk at the beginning of the COVID-19 pandemic and to take advantage of historically low interest rates.
- The total amount outstanding under our Credit Facility increased $35.0 million to $100.0 million as of December 31, 2020 as compared to $65.0 million as of December 31, 2019. We exited the year with $3.5 million of net cash compared to $45.2 million of net debt as of December 31, 2019.
- Cash provided by operating activities was $109.2 million during the year ended December 31, 2020 compared to $66.6 million for 2019, primarily due to the deferral of roughly $38.6 million in payroll taxes as a result of the Coronavirus, Aid, Relief and Economic Security Act (the "CARES Act").

RESULTS OF OPERATIONS

Certain discussions of the changes in our results of operations from the year ended December 31, 2019 as compared to the year ended December 31, 2018 have been omitted from this Annual Report, but may be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 21, 2020.

In 2020, the U.S. and global macro-economic environments were severely impacted by the COVID-19 economic and health crisis. Certain sectors of the U.S. economy were more acutely impacted by this crisis, such as the hospitality, transportation, retail, entertainment, health services and manufacturing sectors. We generate revenue within each of the aforementioned sectors of the U.S. economy though our top three industries served are financial services, business services and telecommunications, which have not been as acutely impacted by this crisis.

Despite certain adverse effects to our business due to the abrupt economic disruption from the COVID-19 economic and health crisis and related governmental rules and regulations, we believe we were strategically well-situated as we entered the crisis in early 2020. The decisions we made to principally focus our efforts on helping world-class companies solve their strategic objectives by providing critical technology talent and solutions provided an important level of resilience to our revenues in 2020. In addition, the COVID-19 Business provided an important level of support to overall FA revenues, which were more acutely impacted at the beginning of this crisis. Our strategic positioning and execution resulted in what we believe is strong financial performance in 2020 and provides us confidence moving forward.

The following table presents certain items in our Consolidated Statements of Operations and Comprehensive Income as a percentage of revenue for the years ended:

December 31,	**2020**	2019	2018
Revenue by segment:			
Tech	**75.1%**	78.5%	75.9%
FA	**24.9**	21.5	24.1
Total Revenue	**100.0%**	100.0%	100.0%
Revenue by type:			
Flex	**97.6%**	96.5%	96.5%
Direct Hire	**2.4**	3.5	3.5
Total Revenue	**100.0%**	100.0%	100.0%
Gross profit	**28.3%**	29.3%	29.6%
Selling, general and administrative expenses	**22.2%**	23.3%	23.6%
Depreciation and amortization	**0.4%**	0.4%	0.5%
Income from operations	**5.7%**	5.6%	5.6%
Income from continuing operations, before income taxes	**5.4%**	5.3%	5.2%
Income from continuing operations	**4.0%**	4.0%	3.9%
Income from discontinued operations, net of tax	**— %**	5.7%	0.5%
Net income	**4.0%**	9.7%	4.4%

Revenue. The following table presents revenue by type for each segment and percentage change from the prior period for the years ended December 31 (in thousands):

	2020	**Increase (Decrease)**	2019	Increase (Decrease)	2018
Tech					
Flex revenue	**$1,032,901**	**(0.4)%**	$1,037,380	6.8%	$ 971,310
Direct Hire revenue	**16,727**	**(18.3)%**	20,479	9.1%	18,779
Total Tech revenue	**$1,049,628**	**(0.8)%**	$1,057,859	6.8%	$ 990,089
FA					
Flex revenue	**$ 331,196**	**26.3%**	$ 262,307	(8.6)%	$ 286,939
Direct Hire revenue	**16,876**	**(38.0)%**	27,221	1.2%	26,909
Total FA revenue	**$ 348,072**	**20.2%**	$ 289,528	(7.7)%	$ 313,848
Total Flex revenue	**$1,364,097**	**5.0%**	$1,299,687	3.3%	$1,258,249
Total Direct Hire revenue	**33,603**	**(29.6)%**	47,700	4.4%	45,688
Total Revenue	**$1,397,700**	**3.7%**	$1,347,387	3.3%	$1,303,937

Our quarterly operating results are affected by the number of billing days in a quarter. The following table presents the year-over-year revenue growth rates, on a billing day basis, for the last five quarters (in thousands, except Billing Days):

	Year-Over-Year Revenue Growth Rates (Per Billing Day)				
	Q4 2020	**Q3 2020**	**Q2 2020**	**Q1 2020**	Q4 2019
Billing days	**62**	**64**	**64**	**64**	62
Tech Flex	**0.8%**	**(4.2)%**	**(3.0)%**	**3.3%**	4.8%
FA Flex	**26.0%**	**51.6%**	**28.7%**	**(3.4)%**	(7.6)%
Total Flex	**5.9%**	**6.9%**	**3.4%**	**1.9%**	2.1%

Flex Revenue. The key drivers of Flex revenue are the number of consultants on assignment, billable hours, the bill rate per hour and, to a limited extent, the amount of billable expenses incurred by Kforce.

Flex revenue for our largest segment, Tech, decreased 0.4% (0.8% on a billing day basis) during the year ended December 31, 2020, as compared to the same period in 2019. The decline was primarily driven by assignment ends with clients in industries that were most significantly impacted by the COVID-19 economic and health crisis and lower overall demand for our services as a result of the crisis. The number of consultants on assignment in Tech Flex have grown 15% since early June 2020 and new assignment starts in the fourth quarter of 2020 increased 16% from the third quarter of 2020. Additionally, lower billable hours in our Tech business were partially offset by higher average bill rates, which increased 4.3% on a year-over-year basis in 2020. This increase was primarily due to our clients retaining our more highly skilled consultants given the scarcity of talent and the assignments that were ended at the onset of this pandemic were lower skilled areas that were less capable of working remotely. We believe that the crisis has exponentially elevated the imperative for companies to rapidly digitize their businesses, transform business models and drive productivity gains through technology investment. We expect growth in our Tech Flex business in 2021 as COVID-19 related restrictions ease and economic momentum builds.

Our FA segment experienced an increase in Flex revenue of 26.3% during the year ended December 31, 2020, as compared to the same period in 2019, primarily driven by the COVID-19 Business that contributed approximately $114.7 million in revenue during the year ended December 31, 2020. This positively impacted FA Flex revenue growth rates by 43.7% for 2020. Similar to our Tech Flex business, we have been successful at growing the number of consultants on assignment in our FA business (excluding the COVID-19 Business) by 33% since early June 2020. As we move into 2021, we expect overall revenues in FA Flex to decline as a result of expected declines in revenues from our COVID-19 Business as well as the strategic migration of our FA business towards more highly-skilled roles that are less susceptible to technological change location and automation.

The following table presents the key drivers for the change in Flex revenue by segment over the prior period (in thousands):

Year Ended December 31,	**2020 vs. 2019**		2019 vs. 2018	
	Tech	**FA**	Tech	FA
Key Drivers—Increase (Decrease)				
Volume—hours billed	**$(41,950)**	**$ 91,662**	$35,194	$(38,922)
Bill rate	**42,088**	**(22,396)**	30,469	14,145
Billable expenses	**(4,617)**	**(377)**	407	145
Total change in Flex revenue	**$ (4,479)**	**$ 68,889**	$66,070	$(24,632)

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

	2020	**Increase (Decrease)**	2019	Increase (Decrease)	2018
Tech	**13,070**	**(4.1)%**	13,625	3.7%	13,145
FA	**9,615**	**35.0%**	7,120	(13.6)%	8,241
Total Flex hours billed	**22,685**	**9.4%**	20,745	(3.0)%	21,386

Direct Hire Revenue. The key drivers of Direct Hire revenue are the number of placements and the associated placement fee. Direct Hire revenue also includes conversion revenue, which may occur when a consultant initially assigned to a client on a temporary basis is later converted to a permanent placement for a fee.

Direct Hire revenue decreased 29.6% during the year ended December 31, 2020, as compared to the same period in 2019, primarily driven by a significant decline in the volume of placements due to the economic environment. However, we have seen a sequential increase in our Direct Hire revenue during the third and fourth quarters of 2020 and expect this trend to continue in the first quarter of 2021.

The following table presents the key drivers for the change in Direct Hire revenue over the prior period (in thousands):

Year Ended December 31,	**2020 vs. 2019**		2019 vs. 2018	
	Tech	**FA**	Tech	FA
Key Drivers—Increase (Decrease)				
Volume—number of placements	**$(4,331)**	**$(10,636)**	$1,113	$(1,903)
Placement fee	**579**	**291**	587	2,215
Total change in Direct Hire revenue	**$(3,752)**	**$(10,345)**	$1,700	$ 312

The following table presents the total number of placements by segment and percentage change over the prior period for the years ended December 31:

	2020	Increase (Decrease)	2019	Increase (Decrease)	2018
Tech	**868**	**(21.2)%**	1,101	6.0%	1,039
FA	**1,176**	**(39.1)%**	1,930	(7.1)%	2,077
Total number of placements	**2,044**	**(32.6)%**	3,031	(2.7)%	3,116

The following table presents the average fee per placement by segment and percentage change over the prior period for the years ended December 31:

	2020	Increase (Decrease)	2019	Increase (Decrease)	2018
Tech	**$19,271**	**3.6%**	$18,604	3.0%	$18,070
FA	**$14,351**	**1.8%**	$14,103	8.8%	$12,957
Total average placement fee	**$16,440**	**4.5%**	$15,738	7.3%	$14,662

Gross Profit. Gross profit is determined by deducting direct costs (primarily consultant compensation, payroll taxes, payroll-related insurance and certain fringe benefits, as well as independent contractor costs) from total revenue. In addition, there are no consultant payroll costs associated with Direct Hire placements; thus, all Direct Hire revenue increases 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 revenue) for each segment and percentage change over the prior period for the years ended December 31:

	2020	Increase (Decrease)	2019	Increase (Decrease)	2018
Tech	**27.6%**	**(0.4)%**	27.7%	(1.1)%	28.0%
FA	**30.6%**	**(13.1)%**	35.2%	1.1%	34.8%
Total gross profit percentage	**28.3%**	**(3.4)%**	29.3%	(1.0)%	29.6%

Total gross profit percentage decreased 100 basis points for the year ended December 31, 2020, as compared to the same period in 2019, primarily driven by the decrease in the mix of Direct Hire revenue.

Flex gross profit percentage (Flex gross profit as a percentage of Flex revenue) 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.

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:

	2020	Increase (Decrease)	2019	Increase (Decrease)	2018
Tech	**26.4%**	**0.4%**	26.3%	(1.1)%	26.6%
FA	**27.1%**	**(4.9)%**	28.5%	(0.3)%	28.6%
Total gross profit percentage	**26.6%**	**(0.4)%**	26.7%	(1.5)%	27.1%

The 10 basis point decrease in Flex gross profit percentage for the year ended December 31, 2020, as compared to the same period in 2019, was primarily due to lower Flex gross profit margins on the COVID-19 Business and some spread compression in our FA business unrelated to the COVID-19 Business.

Overall, our Flex gross profit percentage decreased slightly for the year ended December 31, 2020, as compared to the same period in 2019, although there were notable fluctuations within our segments.

- Tech Flex gross profit margins increased 10 basis points for the year ended December 31, 2020 as compared to the same period in 2019, primarily due to a more favorable payroll tax environment. As we look towards 2021, we expect spreads in our Tech Flex business to be relatively stable.
- FA Flex gross profit margins decreased 140 basis points for the year ended December 31, 2020, as compared to the same period in 2019, primarily due to the COVID-19 Business, which contributed a lower gross profit margin than the rest of the FA portfolio. The estimated Flex gross profit margin for the COVID-19 business was 25.4%, which is roughly 250 basis points lower thanBthe remaining FA Flex business. As we look towards 2021, we expect spreads to be relatively stable outside of the revenue mix impact from the COVID-19 Business, which will likely continue to impact Flex gross profit margins on a year-over-year basis in the first quarter of 2021.

The following table presents the key drivers for the change in Flex gross profit by segment over the prior period (in thousands):

Year Ended December 31,	**2020 vs. 2019**		2019 vs. 2018	
	Tech	**FA**	Tech	FA
Key Drivers—Increase (Decrease)				
Revenue impact	**$(1,177)**	**$19,655**	$17,592	$(7,056)
Profitability impact	**1,669**	**(4,864)**	(3,700)	(297)
Total change in Flex gross profit	**$ 492**	**$14,791**	$13,892	$(7,353)

Kforce continues to focus on effective pricing and optimizing the spread between bill rates and pay rates. We believe this will serve over time to obtain the optimal volume, rate, effort and duration of assignment, while ultimately maximizing the benefit for our clients, our consultants and Kforce.

SG&A Expenses. Total compensation, commissions, payroll taxes and benefit costs as a percentage of SG&A represented 83.0%, 83.1% and 83.6% of SG&A for the years ended December 31, 2020, 2019 and 2018, respectively. Commissions and other bonus incentives for our revenue-generating talent 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 revenue.

The following table presents certain components of SG&A as a percentage of total revenue for the years ended December 31 (in thousands):

	2020	**% of Revenue**	2019	% of Revenue	2018	% of Revenue
Compensation, commissions, payroll taxes and benefits costs	**$257,802**	**18.4%**	$261,185	19.4%	$256,793	19.7%
Other[1]	**52,911**	**3.8%**	52,982	3.9%	50,457	3.9%
Total SG&A	**$310,713**	**22.2%**	$314,167	23.3%	$307,250	23.6%

(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 revenue decreased 110 basis points in 2020, as compared to 2019. The decrease is primarily driven by leverage from our revenue growth, continued improvements in associate productivity, reductions in certain areas such as travel and office related expenses given COVID-19 restrictions and overall tight management of spend. During 2020, we prioritized the retention of our most productive people and more tightly managed overall SG&A spend. For the year ended December 31, 2020, SG&A was negatively impacted by an increase in credit loss reserves due to a higher estimated risk of default within our accounts receivable portfolio resulting from the current economic and health crisis, as well as approximately $1.9 million in operating lease and other expenses related to the streamlining of our field offices. Included in the year ended December 31, 2019 was approximately $2.0 million of severance and other costs due to actions taken as a result of the KGS divestiture, which negatively impacted SG&A.

The Firm continues to focus on improving the productivity of our associates and generating increased operating leverage as revenues grow.

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):

	2020	**Increase (Decrease)**	2019	Increase (Decrease)	2018
Fixed asset depreciation (includes finance leases)	**$4,073**	**(17.4)%**	$4,929	(13.7)%	$5,712
Capitalized software amortization	**1,182**	**5.4%**	1,121	(0.3)%	1,124
Total Depreciation and amortization	**$5,255**	**(13.1)%**	$6,050	(11.5)%	$6,836

Other Expense, Net. Other expense, net was $5.0 million in 2020, $3.4 million in 2019 and $4.5 million in 2018, and consisted primarily of interest expense related to outstanding borrowings under our credit facility.

During the years ended December 31, 2020 and 2019, Other expense, net also included our proportionate share of the loss from WorkLLama, LLC ("WorkLLama"), equity method investment of $1.7 million and $0.8 million, respectively. Although the impact of the COVID-19 economic and health crisis remains highly uncertain, it could have a material adverse effect on the fair value of our equity method investment in WorkLLama. If the fair value falls below the book value of the equity method investment, we would be required to evaluate whether an other-than-temporary impairment has occurred. Refer to Note 1 — "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a more detailed discussion on our equity method investment.

Income Tax Expense. Income tax expense as a percentage of income from continuing operations, before income taxes (our "effective tax rate" for continuing operations) for the years ended December 31, 2020, 2019 and 2018 were 25.5%, 23.6% and 25.1%, respectively. The 2020 effective tax rate was negatively impacted by a lower Work Opportunity Tax Credit in 2020 versus 2019. The 2019 effective tax rate was favorably impacted primarily by a greater tax benefit from the vesting of restricted stock and favorable tax adjustments compared to 2018.

Income from Discontinued Operations, Net of Tax. During 2019, we completed the sale of the GS segment, which consisted of KGS and TraumaFX® Solutions, Inc. ("TFX"), our federal government product business. Kforce did not have significant continuing involvement in the operations of KGS or TFX after the sale and reported the GS segment as discontinued operations in the consolidated statements of operations for all years presented. Refer to Note 2 — "Discontinued Operations" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a more detailed discussion.

On April 1, 2019, Kforce completed the sale of all of the issued and outstanding stock of Kforce Government Holdings, Inc., including its wholly-owned subsidiary, KGS, to ManTech International Corporation for a cash purchase price of $115.0 million. Our gain on the sale of KGS, net of transaction costs, was $72.3 million. Total transaction costs were $9.6 million, which primarily includes legal and broker fees, transaction bonuses and accelerated stock-based compensation expense for KGS management triggered by a change in control of KGS.

On June 7, 2019, Kforce completed the sale of all of the issued and outstanding stock of TFX to an unaffiliated third party for a cash purchase price of $18.4 million less a post-closing working capital adjustment of $0.7 million. Our gain on the sale of TFX, net of transaction costs, was $7.0 million. Total transaction costs were $2.2 million, which primarily includes legal and broker fees and transaction bonuses. Due to the sale of TFX, we finalized the settlement of a contingent consideration liability related to the acquisition of TFX in 2014 and paid $0.6 million during the year ended December 31, 2019.

The effective tax rates for discontinued operations, including the gain on sale of discontinued operations, for the years ended December 31, 2019 and 2018 were 4.4% and 23.4%, respectively. There was no activity relating to discontinued operations in 2020. The GS effective tax rate for 2019 was low because of the minimal income tax obligation for the sale of KGS due to the efficient tax structure of the transaction. The GS effective tax rate for 2018 was positively impacted by the TCJA. The GS effective tax rate for 2017 was unfavorably impacted by the revaluation of our net deferred tax assets 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 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. Free cash flows includes results from discontinued operations for the years ended December 31, 2020, 2019 and 2018.

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

Years Ended December 31,	**2020**	2019	2018
Net income	**$ 56,039**	$ 130,862	$ 57,980
Non-cash provisions and other	**27,582**	(51,650)	22,643
Changes in operating assets/liabilities	**25,538**	(12,595)	7,100
Net cash provided by operating activities	**109,159**	66,617	87,723
Capital expenditures	**(6,475)**	(10,359)	(5,170)
Free cash flow	**102,684**	56,258	82,553
Equity method investment	**(4,000)**	(9,000)	—
Change in debt	**35,000**	(6,800)	(44,723)
Repurchases of common stock	**(35,613)**	(124,453)	(22,187)
Cash dividends	**(16,787)**	(16,608)	(14,871)
Net proceeds from the sale of assets held for sale	**3,548**	122,544	1,000
Other	**(1,177)**	(2,222)	(2,039)
Change in cash and cash equivalents	**$ 83,655**	$ 19,719	$ (267)

Adjusted EBITDA. "Adjusted EBITDA", a non-GAAP financial measure, is defined by Kforce as net income before income from discontinued operations, net of tax, depreciation and amortization, stock-based compensation expense, interest expense, net, income tax expense and loss from equity method investment. 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 because it is a non-cash expense, we expect to continue to incur stock-based compensation in the future and 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,	**2020**	2019	2018
Net income	**$56,039**	$130,862	$57,980
Income from discontinued operations, net of tax	**—**	76,296	7,104
Income from continuing operations	**56,039**	54,566	50,876
Depreciation and amortization	**5,255**	6,050	6,836
Stock-based compensation expense	**11,595**	9,825	8,489
Interest expense, net	**3,396**	2,586	4,468
Income tax expense	**19,173**	16,830	17,004
Loss from equity method investment	**1,681**	831	—
Adjusted EBITDA	**$97,139**	$ 90,688	$87,673

Adjusted EBITDA, for the year ended December 31, 2019, was negatively impacted by $2.0 million of severance and other costs due to actions taken as a result of the KGS divestiture.

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, 2020 and 2019, we had $103.5 million and $19.8 million, respectively, in cash and cash equivalents, which consisted primarily of government money market funds. At December 31, 2020, Kforce had $230.7 million in working capital compared to $160.3 million at December 31, 2019.

Cash Flows

Our business has historically generated a significant amount of operating cash flows, which gives us a great opportunity to balance deploying available capital towards (i) investing in our infrastructure to allow sustainable growth via capital expenditures, (ii) our dividend and share repurchase programs, and (iii) maintaining sufficient liquidity to complete acquisitions or other strategic investments.

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

Years Ended December 31,	**2020**	2019	2018
Cash Provided by (Used in)			
Operating activities	**$109,159**	$ 66,617	$ 87,723
Investing activities	**(6,927)**	103,185	(4,170)
Financing activities	**(18,577)**	(150,083)	(83,820)
Change in cash and cash equivalents	**$ 83,655**	$ 19,719	$ (267)

Our Consolidated Statements of Cash Flows are presented on a combined basis (continuing operations and discontinued operations). As previously discussed, the GS segment was sold and has been reflected as discontinued operations. The absence of cash flows from the GS segment is not expected to have a significant effect on the future liquidity, financial position or capital resources of Kforce.

The following table provides information for the total operating and investing cash flows for the GS segment (in thousands):

Years Ended December 31,	**2020**	2019	2018
Cash Provided by (Used in)			
GS Operating Activities	**$—**	$ 4,547	$10,937
GS Investing Activities	**$—**	$117,798	$ (927)

Operating Activities

Cash provided by operating activities was $109.2 million during the year ended December 31, 2020, as compared to $66.6 million during the year ended December 31, 2019. 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 compensation. The increase was primarily driven by the deferral of the employer portion of social security taxes, which amounted to $38.6 million, which will be paid equally in 2021 and 2022 as prescribed by the CARES Act, continued positive performance of our accounts receivable portfolio and profitable revenue growth.

Investing Activities

Cash used in investing activities was $6.9 million during the year ended December 31, 2020, as compared to cash provided by investing activities of $103.2 million during the year ended December 31, 2019, which includes capital expenditures. Cash flows from investing activities for the year ended December 31, 2020 includes the receipt of proceeds from the sale of assets held within the Rabbi Trust, as well as capital investments in our WorkLLama joint venture. Cash flows from investing activities during the year ended December 31, 2019, include the net proceeds from the sale of assets held for sale, as well as capital invested in WorkLLama. We expect to continue selectively investing in our infrastructure, primarily focusing on implementing new and upgrading existing technologies that we expect will provide the most benefit.

Financing Activities

Cash used in financing activities was $18.6 million during the year ended December 31, 2020, as compared to $150.1 million during the year ended December 31, 2019. This was primarily driven by the $35.0 million draw down on our Credit Facility during the year ended December 31, 2020, partially offset by a decrease in cash used for repurchases of common stock to conserve our liquidity during the pandemic.

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

	2020	2019	2018
Open market repurchases	**$ 29,386**	$ 118,324	$ 16,069
Repurchase of shares related to tax withholding requirements for vesting of restricted stock	**6,227**	6,129	6,118
Total cash flow impact of common stock repurchases	**$35,613**	$124,453	$22,187
Cash paid in current year for settlement of prior year repurchases	**$ —**	$ 556	$ 3,323

During the years ended December 31, 2020, 2019 and 2018, Kforce declared and paid dividends of $16.8 million ($0.80 per share), $16.6 million ($0.72 per share) and $14.9 million ($0.60 per share), respectively. On February 5, 2021, Kforce's Board approved a 15% increase to the Company's quarterly dividend from $0.20 per share to $0.23 per share. 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 as well as the ability to pay dividends under applicable law.

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.

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"). 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 collateral. Refer to Note 14 — "Credit Facility" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a complete discussion of our Credit Facility. As of December 31, 2020, $100.0 million was outstanding and $198.5 million, subject to certain covenants, was available and as of December 31, 2019, $65.0 million was outstanding under the Credit Facility.

Kforce entered into two forward-starting interest rate swap agreements (the "Swaps") to mitigate the risk of rising interest rates and the Swaps have been designated as a cash flow hedges. Refer to Note 15 — "Derivative Instrument and Hedging Activity" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a complete discussion of the Swaps. As of December 31, 2020 and 2019, the fair value of the Swaps was a liability of $1.8 million and $0.2 million, respectively.

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):

	2020 (1)(2)		2019	
	Shares	**$**	Shares	$
Open market repurchases	**1,020**	**$29,386**	3,315	$117,768

(1) In March 2020, the Board approved an increase in our stock repurchase authorization to an aggregate total of $100.0 million.

(2) In April 2020, we suspended open market stock repurchases.

As of December 31, 2020, $84.5 million remained available for further repurchases under the Board-authorized common stock repurchase program.

Off-Balance Sheet Arrangements

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2020, Kforce had letters of credit outstanding for operating lease and insurance coverage deposits totaling $1.5 million.

In June 2019, we entered into a joint venture whereby Kforce has a 50% noncontrolling interest in WorkLLama, a newly formed LLC that is accounted for as an equity method investment. Refer to Note 1 — "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, included in this Annual Report, which discusses a contingent obligation related to this equity method investment.

These off-balance sheet arrangements do not have a material impact on our liquidity or capital resources. These off-balance sheet arrangements do not provide financing, liquidity, market or credit risk support.

Contractual Obligations and Commitments

The following table presents our expected future contractual obligations as of December 31, 2020 (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Credit facility (1)	$107,847	$ 2,554	$103,968	$ 1,325	$ —
Operating lease obligations	21,917	6,115	4,390	8,968	2,444
Finance lease obligations	131	88	35	8	—
Purchase obligations (2)	11,739	9,328	1,786	625	—
Notes and interest payable (3)	224	224	—	—	—
Deferred compensation plans liability (4)	38,344	3,842	6,035	5,953	22,514
Supplemental Executive Retirement Plan (5)	24,967	—	15,231	—	9,736
Liability for unrecognized tax positions (6)	—	—	—	—	—
Total	$205,169	$22,151	$131,445	$16,879	$34,694

(1) Our credit facility matures May 25, 2022. Our interest rate as of December 31, 2020 was used 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.

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

(3) Our notes payable as of December 31, 2020 relates to equipment financing arrangements and are classified in Other current liabilities if payable within the next year or in Other long-term liabilities if payable after the next year in the accompanying Consolidated Balance Sheets. The interest rate on the notes range from 2.58% to 2.71% and expire between April 2020 and October 2021.

(4) 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.

(5) 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, 2020. Kforce does not currently anticipate funding the SERP during 2021. Kforce has included the total undiscounted projected benefit payments, as determined at December 31, 2020, in the table above.

(6) Kforce's liability for unrecognized tax positions, as of December 31, 2020, was $0.2 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.

CRITICAL ACCOUNTING ESTIMATES

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. Our consolidated financial statements are prepared in accordance with 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. 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. We have not made any material changes in our accounting methodologies used in prior years.

Allowance for Credit Losses

Management performs an ongoing analysis of factors in establishing its allowance for doubtful accounts 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. A 10% change in accounts reserved, at December 31, 2020, would have impacted our net income by approximately $0.3 million in 2020.

On January 1, 2020, we adopted an accounting standard that requires companies to estimate and recognize lifetime expected losses, rather than incurred losses, which results in the earlier recognition of credit losses even if the expected risk of credit loss is remote. The accounting standard applies to most financial assets, including trade receivables and direct financing leases. The standard does not apply to the receivables arising from operating leases. Upon adoption of the new standard on January 1, 2020, we recognized a credit loss adjustment related to adoption of this accounting standard as a cumulative adjustment to retained earnings. For details, refer to Note 5 — "Allowance for credit losses" in the Notes to Consolidated Financial Statements, included in this Annual Report.

Accounting for Income Taxes

Our 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.

We are also required to exercise judgment with respect to the realization of our net deferred tax assets. Management evaluates 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. A 0.5% change in our effective tax rate would have impacted our net income by approximately $0.4 million in 2020.

Refer to Note 7 — "Income Taxes" in the Notes to Consolidated Financial Statements, included in this Annual Report, for a complete discussion of the components of our income tax expense, as well as the temporary differences that exist as of December 31, 2020.

Equity Method Investment

Initial Investment. In June 2019, we entered into a joint venture whereby Kforce has a 50% noncontrolling interest in WorkLLama, which is accounted for us as an equity method investment. Under the joint venture operating agreement, Kforce is obligated to make additional cash contributions subsequent to the initial contribution, contingent on certain operational and financial milestones. Management evaluated the probability of the achievement of these milestones and recorded the estimated future contributions as part of the initial investment.

Impairment Assessment. We review the equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognized in the event that an other-than-temporary decline in fair value of an investment occurs. Management's estimate of fair value of an investment is based on the income approach and/or market approach. For the income approach, we utilize estimated discounted future cash flows expected to be generated by the investee. For the market approach, we utilize market multiples of revenue and earnings derived from comparable publicly-traded companies. 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 for future economic cycles; (5) market comparable companies and appropriate adjustments thereto; and (6) market multiples. Changes in key assumptions about the financial condition of an investee or actual conditions that differ from estimates could result in an impairment charge.

Refer to 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 equity method investment.

Goodwill Impairment

Goodwill is tested at the reporting unit level which is generally an operating segment, or one level below the operating segment level, where a business operates and for which discrete financial information is available and reviewed by segment management. 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. 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.

When performing a quantitative assessment, we determine the fair value of our reporting units using widely accepted valuation techniques, including the discounted cash flow, guideline transaction and guideline company methods. 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. When performing a qualitative assessment, we assess 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 unit was less than its carrying amount.

Refer to Note 9 — “Goodwill” in the Notes to Consolidated Financial Statements, included in this Annual Report, for a complete discussion of the valuation methodologies employed.

Self-Insured Liabilities

We are self-insured for certain losses related to health insurance 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 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. A 10% change in our self-insured liabilities related to health insurance, as of December 31, 2020, would have impacted our net income by approximately $0.5 million in 2020.

Defined Benefit Pension Plan

The SERP is a defined benefit pension plan that benefits certain named executive officers. The SERP was not funded as of December 31, 2020 or 2019. 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.

A 10% change in the discount rate used to measure the net periodic pension cost for the SERP would have had an insignificant impact on our net income in 2020.

Refer to Note 13 — “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.

NEW ACCOUNTING STANDARDS

Refer to 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 the Board 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, 2020. 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, 2020, 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, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors 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, 2020 and 2019, 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, 2020, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Change in Accounting Principle

Effective January 2019, Kforce adopted the FASB's new standard related to leases using the optional transition method without retrospective application to comparative periods.

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Equity Method Investment — Refer to Note 1 to the Consolidated Financial Statements

Critical Audit Matter Description

In June 2019, Kforce entered into a joint venture whereby Kforce has a 50% noncontrolling ownership in WorkLLama, LLC ("WorkLLama"). The noncontrolling interest in WorkLLama, a variable interest entity, is accounted for as an equity method investment. Under the equity method, the investment carrying value is recorded at cost and adjusted for the proportionate share of earnings or losses. Management reviews the equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss would be recognized in the event that an other-than-temporary decline in fair value of an investment occurs. Management's estimate of fair value of an investment is based on the income approach and/or market approach, which requires management to make significant estimates and assumptions related to the discount rate and forecasted operating results for WorkLLama. Changes in these assumptions could have a significant impact on either the fair value, the amount of any impairment charge, or both. The balance of the investment in WorkLLama of $10.5 million was included in Other assets, net in the Consolidated Balance Sheet at December 31, 2020.

We identified management's quantitative impairment analysis for the equity method investment in WorkLLama as a critical audit matter because of the significant amount of judgment required by management to estimate the fair value of WorkLLama. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the selection of the discount rate and forecasted operating results.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the discount rate and forecasted operating results used by management to estimate the fair value of WorkLLama included the following, among others:

- We tested the effectiveness of controls over management's impairment evaluation, including those over the discount rate and forecasted operating results. ent, we evaluated the reasonableness of management's revenue forecasts as follows:
- Due to the lack of operating history available for the equity method investment, we evaluated the reasonableness of management's forecasts as follows:
  - Obtained an understanding of and performed audit procedures over management's forecasting process, including the sources of information used, the underlying significant assumptions, and sensitivity to changes in these significant assumptions.
  - Compared the forecast to (1) internal communications to management and Board of Directors, (2) current year operating results, and (3) forecasted information included in analyst and industry reports for the Company.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the valuation methodology and assumptions used to determine the fair value of WorkLLama, such as the discount rate, by:
  - Testing the underlying source information and mathematical accuracy of the calculations.
  - Developing a range of independent estimates and comparing those to the assumptions used by management.
  - For the discount rate, we compared the amount used by management to the amounts associated with other companies with a similar risk profile, and
  - Evaluating the interaction between the discount rate and the forecasts to understand and sensitize management's assumptions regarding risk inherent in the forecast.

Deloitte & Touche LLP

Tampa, Florida
February 26, 2021

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,	**2020**	2019	2018
Revenue	**$1,397,700**	$1,347,387	$1,303,937
Direct costs	**1,001,476**	952,349	917,450
Gross profit	**396,224**	395,038	386,487
Selling, general and administrative expenses	**310,713**	314,167	307,250
Depreciation and amortization	**5,255**	6,050	6,836
Income from operations	**80,256**	74,821	72,401
Other expense, net	**5,044**	3,425	4,521
Income from continuing operations, before income taxes	**75,212**	71,396	67,880
Income tax expense	**19,173**	16,830	17,004
Income from continuing operations	**56,039**	54,566	50,876
Income from discontinued operations, net of tax	**—**	76,296	7,104
Net income	**56,039**	130,862	57,980
Other comprehensive (loss) income:			
Defined benefit pension plans, net of tax	**(1,706)**	(2,183)	881
Change in fair value of interest rate swap, net of tax	**(1,191)**	(807)	315
Comprehensive income	**$ 53,142**	$ 127,872	$ 59,176
Earnings per share — basic:			
Continuing operations	**$2.67**	$2.35	$2.05
Discontinued operations	**—**	3.29	0.29
Earnings per share — basic	**$2.67**	$5.64	$2.34
Earnings per share — diluted:			
Continuing operations	**$2.62**	$2.29	$2.02
Discontinued operations	**—**	3.21	0.28
Earnings per share — diluted	**$2.62**	$5.50	$2.30
Weighted average shares outstanding — basic	**20,983**	23,186	24,738
Weighted average shares outstanding — diluted	**21,395**	23,772	25,251

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

CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31,	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 103,486**	$ 19,831
Trade receivables, net of allowances of $3,204 and $2,078, respectively	**228,373**	217,929
Prepaid expenses and other current assets	**7,033**	7,475
Total current assets	**338,892**	245,235
Fixed assets, net	**26,804**	29,975
Other assets, net	**77,575**	72,838
Deferred tax assets, net	**10,738**	8,037
Goodwill	**25,040**	25,040
Total assets	**$ 479,049**	$ 381,125
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 35,533**	$ 33,232
Accrued payroll costs	**65,849**	44,001
Current portion of operating lease liabilities	**5,520**	5,685
Other current liabilities	**300**	1,168
Income taxes payable	**964**	878
Total current liabilities	**108,166**	84,964
Long-term debt — credit facility	**100,000**	65,000
Other long-term liabilities	**90,948**	63,898
Total liabilities	**299,114**	213,862
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, $0.01 par; 15,000 shares authorized, none issued and outstanding	**—**	—
Common stock, $0.01 par; 250,000 shares authorized, 72,600 and 72,202 issued and outstanding, respectively	**726**	722
Additional paid-in capital	**472,378**	459,545
Accumulated other comprehensive loss	**(4,423)**	(1,526)
Retained earnings	**388,645**	350,545
Treasury stock, at cost; 50,427 and 49,277 shares, respectively	**(677,391)**	(642,023)
Total stockholders' equity	**179,395**	167,263
Total liabilities and stockholders' equity	**$ 479,049**	$ 381,125

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance, December 31, 2017	71,494	$715	$437,394	$ 100	$195,143	45,167	$(499,075)	$ 134,277
Net income	—	—	—	—	57,980	—	—	57,980
Cumulative effect of revenue recognition accounting standard, net of tax of $63	—	—	—	—	(179)	—	—	(179)
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	357	4	762	—	(766)	—	—	—
Exercise of stock options	5	—	46	—	—	1	(46)	—
Stock-based compensation expense	—	—	8,797	—	—	—	—	8,797
Employee stock purchase plan	—	—	338	—	—	(19)	211	549
Dividends ($0.60 per share)	—	—	—	—	(14,870)	—	—	(14,870)
Defined benefit pension plans, net of tax benefit of $314	—	—	—	881	—	—	—	881
Change in fair value of interest rate swap, net of tax of $107	—	—	—	315	—	—	—	315
Repurchases of common stock	—	—	—	—	—	673	(19,419)	(19,419)
Balance, December 31, 2018	71,856	719	447,337	1,296	237,308	45,822	(518,329)	168,331
Net income	—	—	—	—	130,862	—	—	130,862
Reclassification of stranded tax effects (Note 1)	—	—	—	168	(168)	—	—	—
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	346	3	846	—	(849)	—	—	—
Exercise of stock options	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	11,007	—	—	—	—	11,007
Employee stock purchase plan	—	—	355	—	—	(17)	203	558
Dividends ($0.72 per share)	—	—	—	—	(16,608)	—	—	(16,608)
Defined benefit pension plan, no tax benefit	—	—	—	(2,183)	—	—	—	(2,183)
Change in fair value of interest rate swap, net of tax of $272	—	—	—	(807)	—	—	—	(807)
Repurchases of common stock	—	—	—	—	—	3,472	(123,897)	(123,897)
Balance, December 31, 2019	72,202	722	459,545	(1,526)	350,545	49,277	(642,023)	167,263
Net income	**—**	**—**	**—**	**—**	**56,039**	**—**	**—**	**56,039**
Adoption of new accounting standard (Note 5), net of tax of $75	**—**	**—**	**—**	**—**	**(214)**	**—**	**—**	**(214)**
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	**398**	**4**	**934**	**—**	**(938)**	**—**	**—**	**—**
Stock-based compensation expense	**—**	**—**	**11,595**	**—**	**—**	**—**	**—**	**11,595**
Employee stock purchase plan	**—**	**—**	**304**	**—**	**—**	**(19)**	**245**	**549**
Dividends ($0.80 per share)	**—**	**—**	**—**	**—**	**(16,787)**	**—**	**—**	**(16,787)**
Defined benefit pension plan, no tax benefit	**—**	**—**	**—**	**(1,706)**	**—**	**—**	**—**	**(1,706)**
Change in fair value of interest rate swap, net of tax benefit of $404	**—**	**—**	**—**	**(1,191)**	**—**	**—**	**—**	**(1,191)**
Repurchases of common stock	**—**	**—**	**—**	**—**	**—**	**1,169**	**(35,613)**	**(35,613)**
Balance, December 31, 2020	**72,600**	**$726**	**$472,378**	**$(4,423)**	**$388,645**	**50,427**	**$(677,391)**	**$ 179,935**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended December 31,	**2020**	2019	2018
Cash flows from operating activities:			
Net income	**$ 56,039**	$ 130,862	$ 57,980
Adjustments to reconcile net income to cash provided by operating activities:			
Gain on sale of assets held for sale	**—**	(79,318)	—
Deferred income tax provision, net	**(2,298)**	(49)	989
Provision for bad debts	**2,130**	1,209	1,820
Depreciation and amortization	**5,255**	6,481	8,265
Stock-based compensation expense	**11,595**	9,912	8,797
Defined benefit pension plans expense	**842**	862	1,821
Loss on deferred compensation plan investments, net	**702**	245	563
Loss on disposal or impairment of assets	**1,822**	1,084	38
Noncash lease expense	**5,499**	6,282	—
Loss on equity method investment	**1,681**	831	—
Contingent consideration liability remeasurement and other	**354**	811	350
(Increase) decrease in operating assets			
Trade receivables, net	**(12,863)**	(5,360)	(10,851)
Other assets	**(4,485)**	(9,639)	5,741
Increase (decrease) in operating liabilities			
Accrued payroll costs	**22,397**	4,567	1,350
Other liabilities	**20,489**	(2,163)	10,860
Cash provided by operating activities	**109,159**	66,617	87,723
Cash flows from investing activities:			
Capital expenditures	**(6,475)**	(10,359)	(5,170)
Equity method investment	**(4,000)**	(9,000)	—
Net proceeds from the sale of assets held for sale	**3,548**	122,544	1,000
Cash provided by (used in) investing activities	**(6,927)**	103,185	(4,170)
Cash flows from financing activities:			
Proceeds from credit facility	**35,000**	80,100	450,400
Payments on credit facility	**—**	(86,900)	(495,123)
Payments on other financing arrangements, payment of contingent consideration liability and other	**(1,177)**	(2,222)	(2,039)
Repurchases of common stock	**(35,613)**	(124,453)	(22,187)
Cash dividends	**(16,787)**	(16,608)	(14,871)
Cash used in financing activities	**(18,577)**	(150,083)	(83,820)
Change in cash and cash equivalents	**83,655**	19,719	(267)
Cash and cash equivalents at beginning of year	**19,831**	112	379
Cash and cash equivalents at end of year	**$103,486**	$ 19,831	$ 112
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Income taxes (1)	**$ 21,737**	$ 24,935	$ 13,442
Operating lease liabilities	**7,330**	8,186	—
Interest, net	**2,574**	1,480	3,814
Non-Cash Financing and Investing Transactions:			
ROU assets obtained from operating leases	**$ 5,695**	$ 9,205	$ —
Employee stock purchase plan	**549**	558	549
Unsettled repurchases of common stock	**—**	—	556

(1) During the year ended December 31, 2018, cash provided by operating activities included the receipt of an income tax refund in the amount of $6.8 million.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with Generally Accepted Accounting Principles ("GAAP") and the rules of the Securities and Exchange Commission ("the SEC").

Certain prior year amounts have been reclassified to conform with the current period presentation for amounts related to discontinued operations. Refer to Note 2 — "Discontinued Operations" for further information.

Principles of Consolidation

The consolidated financial statements include the accounts of Kforce Inc. and its 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 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 critical of these estimates and assumptions relate to the following: allowance for credit losses; income taxes; self-insured liabilities for workers' compensation and health insurance; obligations for the pension plan; and the impairment of goodwill, other long-lived assets and the equity method investment. 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

All of our revenue and trade receivables are generated from contracts with customers and our revenues are derived from U.S. domestic operations.

Revenue is recognized when control of the promised services is transferred to our customers at an amount that reflects the consideration to which we expect to be entitled to in exchange for those services. Revenue is recorded net of sales or other transaction taxes collected from clients and remitted to taxing authorities.

For substantially all of our revenue transactions, we have determined that the gross reporting of revenues as a principal, versus net as an agent, is the appropriate accounting treatment because Kforce: (i) is primarily responsible for fulfilling the promise to provide the specified service to the customer; (ii) has discretion in selecting and assigning the temporary workers to particular jobs and establishing the bill rate; and (iii) bears the risk and rewards of the transaction, including credit risk if the customer fails to pay for services performed.

Flex Revenue

Substantially all of our Flex revenue is recognized over time as temporary staffing services are provided by our consultants at the contractually established bill rates, net of applicable variable consideration, such as customer rebates and discounts. Reimbursements of travel and out-of-pocket expenses ("billable expenses") are also recorded within Flex revenue when incurred and the equivalent amount of expense is recorded in Direct costs in the Consolidated Statements of Operations and Comprehensive Income. We recognize revenue in the amount of consideration to which we have the right to invoice when it corresponds directly to the services transferred to the customer satisfied over time. A relatively insignificant portion of our Flex revenue is outcome-based, as specified in our contractual arrangements with our clients. These arrangements are managed principally on a time and materials basis but do involve an element of financial risk and is monitored by the Company.

Direct Hire Revenue

Direct Hire revenue is recognized at the agreed upon rate at the point in time when the performance obligation is considered complete. Our policy requires the following criteria to be met in order for the performance obligation to be considered complete: (i) the candidate accepted the position; (ii) the candidate resigned from their current employer; and (iii) the agreed upon start date falls within the following month. Since the client has accepted the candidate and can direct the use of and obtains the significant risk and rewards of the placement, we consider this point as the transfer of control to our client.

Variable Consideration

Transaction prices for Flex revenue include variable consideration. Management evaluates the facts and circumstances of each contract to estimate the variable consideration using the most likely amount method which utilizes management's expectation of the volume of services to be provided over the applicable period.

Direct Hire revenue is recorded net of a fallout reserve. Direct Hire fallouts occur when a candidate does not remain employed with the client through the respective contingency period (typically 90 days or less). Management uses the expected value method to estimate the fallout reserve based on a combination of past experience and current trends.

Payment Terms

Our payment terms and conditions vary by arrangement. While terms are typically less than 90 days, during this abrupt economic disruption from the COVID-19 crisis, we have extended our payment terms beyond 90 days for certain of our customers. Generally, the timing between the satisfaction of the performance obligation and the payment is not significant and we do not currently have any significant financing components.

Unsatisfied Performance Obligations

We do not disclose the value of unsatisfied performance obligations for contracts if either the original expected length is one year or less or if revenue is recognized at the amount to which we have the right to invoice for services performed.

Contract Balances

We record accounts receivable when our right to consideration becomes unconditional and services have been performed. Other than our trade receivable balance, we do not have any material contract assets as of December 31, 2020 and 2019.

We record a contract liability when we receive consideration from a customer prior to transferring services to the customer. We recognize the contract liability as revenue after we have transferred control of the goods or services to the customer. Contract liabilities are recorded within Accounts payable and other accrued liabilities if expected to be recognized in less than one year and Other long-term liabilities, if over one year, in the Consolidated Balance Sheets. We do not have any material contract liabilities as of December 31, 2020 and 2019.

Cost of Services

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

Associate and field management compensation, payroll taxes and fringe benefits are included in SG&A along with other customary costs such as administrative and corporate costs.

Commissions

Our associates make placements and earn commissions as a percentage of revenue or gross profit pursuant to a commission plan. The amount of associate commissions paid increases as volume increases. Commissions are accrued at an amount equal to the percent of total expected commissions payable to total revenue or gross profit for the commission-plan period, as applicable. We generally expense sales commissions and any other incremental costs of obtaining a contract as incurred because the amortization period is typically less than one year.

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 and forfeitures are recognized as incurred. 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.

Income Taxes

Income taxes are recorded using the asset and liability approach for deferred tax assets and liabilities and the expected future tax consequences of differences between carrying amounts and the tax basis of assets and liabilities. A valuation allowance is recorded unless it is more likely than not that the deferred tax asset can be utilized to offset future taxes.

Management evaluates tax positions taken or expected to be taken in our tax returns and records a liability (including interest and penalties) for uncertain tax positions. We recognize 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. The Company recognizes interest and penalties related to uncertain tax positions in Income tax expense in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Cash and Cash Equivalents

All highly liquid investments with original maturity dates of three months or less at the time of purchase are classified as cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value because of the short-term nature of these instruments. Our cash equivalents are held in government money market funds and at times may exceed federally insured limits.

Trade Receivables and Related Reserves

Trade receivables are recorded net of allowance for credit losses. The allowance for credit losses is determined under the newly adopted guidance, which requires the application of a current expected credit loss model, a new impairment model, which measures expected credit losses based on relevant information, including historical experience, current conditions and reasonable and supportable forecasts. Trade receivables are written off after all reasonable collection efforts have been exhausted. Trade accounts receivable reserves as a percentage of gross trade receivables was approximately 1% at both December 31, 2020 and 2019.

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 expected terms of the related leases. 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.

Long-lived assets are reviewed 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.

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 (“market approach”). 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.

Equity Method Investment

In June 2019, we entered into a joint venture whereby Kforce has a 50% noncontrolling interest in WorkLLama. WorkLLama has developed and continues to mature the technology for a SaaS platform focused on talent communities in areas that include consultant engagement, on-demand staffing and referral technologies, which we believe has enhanced our capability to more efficiently and effectively identify and place consultants on assignment. Our noncontrolling interest in WorkLLama, a variable interest entity, is accounted for as an equity method investment. Under the equity method, our carrying value is at cost and adjusted for our proportionate share of earnings or losses. There are no basis differences between our carrying value and the underlying equity in net assets that would result in adjustments to our proportionate share of earnings or losses. We recorded a loss related to our equity method investment of $1.7 million and $0.8 million during the years ended December 31, 2020 and 2019, respectively. The balance of the investment in WorkLLama of $10.5 million and $8.2 million was included in Other assets, net in the Consolidated Balance Sheet at December 31, 2020 and 2019, respectively.

Under the joint venture operating agreement for WorkLLama, Kforce was obligated to make additional cash contributions subsequent to the initial contribution, contingent on WorkLLama’s achievement of certain operational and financial milestones, which are centered around the market acceptance of its technologies and success with internal operating and strategic objectives. Management evaluated the probability of WorkLLama’s achievement of these milestones and recorded the estimated future contributions as part of the initial investment. Under the operating agreement, our maximum potential capital contributions were $22.5 million. During the years ended December 31, 2020 and 2019, we contributed $4.0 million and $9.0 million of capital contributions, respectively.

We review the equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognized in the event that an other-than-temporary decline in the fair value of the investment occurs. Management’s estimate of the fair value of an investment is based on the income approach and market approach. Like most companies, WorkLLama has been impacted by the COVID-19 pandemic and made adjustments to its strategic objectives as a result. The impact of COVID-19 negatively impacted WorkLLama’s financial objectives for 2020; thus, management determined the COVID-19 pandemic was a triggering event in its assessment of recoverability of the equity method investment. We performed an impairment test as of December 31, 2020, utilizing the market and income approach as described above in our section titled Goodwill, which notes the use of factors requiring significant judgement, including assumptions related to discount rates, forecasted operating results, long-term growth rates, the determination of comparable companies and market multiples. We concluded that the carrying value of the equity method investment was not impaired.

Operating Leases

Kforce leases property for our field offices as well as certain office equipment, which limits our exposure to risks related to ownership. We determine if a contract or arrangement meets the definition of a lease at inception. We elected not to separate lease and non-lease components when determining the consideration in the contract. Right-of-use (“ROU”) assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. If there is no rate implicit in the lease, we use our incremental borrowing rate in the present value calculation, which is based on our collateralized borrowing rate and determined based on the terms of our leases and the economic environment in which they exist. Our lease agreements do not contain any material residual value guarantees or restrictive covenants.

ROU assets for operating leases, net of amortization, are recorded within Other assets, net and operating lease liabilities are recorded within current liabilities if expected to be recognized in less than one year and in Other long-term liabilities, if over one year, in the Consolidated Balance Sheet. Operating lease additions are non-cash transactions and the amortization of the ROU assets is reflected as Noncash lease expense within operating activities in the Consolidated Statement of Cash Flows.

Our lease terms typically range from three to five years with some containing options to renew or terminate. The exercise of renewal options is at our sole discretion and is included in the lease term if we are reasonably certain that the renewal option will be exercised.

We elected the short-term practical expedient for leases with an initial term of 12 months or less and do not recognize ROU assets or lease liabilities for these short-term leases.

In addition to base rent, certain of our operating leases require variable payments of property taxes, insurance and common area maintenance. These variable lease costs, other than those dependent upon an index or rate, are expensed when the obligation for those payments is incurred.

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 included in Other assets, net in the accompanying Consolidated Balance Sheets. Amortization expense is computed using the straight-line method over the estimated useful lives of the software, which range from one to ten years. Amortization expense of capitalized software during the years ended December 31, 2020, 2019 and 2018 was $1.1 million in each year.

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 $600 thousand in claims annually. Additionally, for all claim amounts exceeding $600 thousand, Kforce retains the risk of loss up to an annual aggregate loss of those claims of $200 thousand. For its partially self-insured lines of coverage, health insurance costs are accrued using estimates to approximate the liability for reported claims and incurred but not reported 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.

Legal Costs

Legal costs incurred in connection with loss contingencies are expensed as incurred.

Defined Benefit Pension Plan

Because our defined benefit pension plan is unfunded as of December 31, 2020, actuarial gains and losses may arise as a result of the actuarial experience of the plan, 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 pension plan is recorded in Accumulated other comprehensive loss in our consolidated financial statements. The unfunded status of the defined benefit pension plan is recorded as a liability in our Consolidated Balance Sheets.

Amortization of a net unrecognized gain or loss in accumulated other comprehensive 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. The interest cost component of the net periodic benefit cost is included in Other expense, net in the Consolidated Statements of Operations and Comprehensive Income.

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 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, 2020, 2019 and 2018, there were 412 thousand, 586 thousand and 513 thousand common stock equivalents, respectively, included in the diluted WASO. For the years ended December 31, 2020, 2019 and 2018, there were 249 thousand, 1 thousand and nil, respectively, of anti-dilutive common stock equivalents.

Treasury Stock

The Board may authorize share repurchases of our common stock. Shares repurchased under Board authorizations are held in treasury for general corporate purposes. 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

Our interest rate swap derivative instruments have been designated as cash flow hedges and are recorded at fair value on the Consolidated Balance Sheets. The effective portion of the gain or loss on the derivative instruments are recorded as a component of Accumulated other comprehensive loss, net of tax, and reclassified into earnings when the hedged items affect 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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy uses a framework which requires categorizing assets and liabilities into one of three levels based on the inputs used in valuing the asset or liability.

- Level 1 inputs are unadjusted, quoted market prices in active markets for identical assets or liabilities.
- Level 2 inputs are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 inputs include unobservable inputs that are supported by little, infrequent or no market activity and reflect management's own assumptions about inputs used in pricing the asset or liability.

Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Fair value measurements include, but are not limited to: the impairment of goodwill, other long-lived assets and the equity method investment; stock-based compensation and the interest rate swap. The carrying values of cash and cash equivalents, trade receivables, other current assets and accounts payable and other accrued liabilities approximate fair value because of the short-term nature of these instruments. Using available market information and appropriate valuation methodologies, management 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 June 2016, the FASB issued authoritative guidance on accounting for credit losses on financial instruments, including trade receivables, and has since issued subsequent updates to the initial guidance. The amended guidance requires the application of a current expected credit loss model, a new impairment model, which measures expected credit losses based on relevant information, including historical experience, current conditions and reasonable and supportable forecasts. The guidance is effective for annual periods beginning after December 15, 2019. We adopted this standard using the modified retrospective approach as of January 1, 2020, as required. Refer to Note 5 — "Allowance for Credit Losses" for additional accounting policy and transition disclosures related to our allowance for credit losses.

In March 2020, the FASB issued authoritative guidance, which provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships and other transactions that reference LIBOR and are affected by reference rate reform if certain criteria are met. Entities may adopt the provisions of the new standard as of the beginning of the reporting period when the election is made between March 12, 2020 through December 31, 2022. We adopted this optional standard effective January 1, 2020 using the prospective method, and utilized the optional expedients for cash flow hedges to assume that a hedged forecasted transaction is probable of occurring and that the reference rate will not be replaced for the remainder of a hedging relationship.

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued authoritative guidance regarding changes to the disclosure requirement for defined benefit plans including additions and deletions to certain disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The guidance is effective for fiscal periods beginning after December 15, 2020, with the retrospective method required for all periods presented. The adoption of this guidance will modify our disclosures but is not expected to have a material effect on our consolidated financial statements.

2. DISCONTINUED OPERATIONS

During 2019, management divested the Government Solutions ("GS") segment as a result of the Firm's decision to focus solely on the commercial technical and professional staffing services and solutions space. The GS segment consisted of Kforce Government Solution ("KGS"), our federal government solutions business, and TFX, our federal government product business.

On April 1, 2019, Kforce completed the sale of all of the issued and outstanding stock of Kforce Government Holdings, Inc., including its wholly-owned subsidiary KGS, to ManTech International Corporation for a cash purchase price of $115.0 million. Our gain on the sale of KGS, net of transaction costs, was $72.3 million. Total transaction costs were $9.6 million, which primarily includes legal and broker fees, transaction bonuses and accelerated stock-based compensation expense for KGS management triggered by a change in control of KGS.

On June 7, 2019, Kforce completed the sale of all of the issued and outstanding stock of TFX to an unaffiliated third party for a cash purchase price of $18.4 million less a post-closing working capital adjustment of $0.7 million. Our gain on the sale of TFX, net of transaction costs, was $7.0 million. Total transaction costs were $2.2 million, which primarily includes legal and broker fees and transaction bonuses. Due to the sale of TFX, we finalized the settlement of a contingent consideration liability related to the acquisition of TFX in 2014 and paid $0.6 million during the year ended December 31, 2019.

Since the divestitures, Kforce has had no significant continuing involvement in the operations of KGS and TFX.

The results of operations for both KGS and TFX have been reported as discontinued operations in our consolidated financial statements prior to their disposition.

The following table summarizes the income from discontinued operations, net of tax for the GS segment (in thousands):

Years Ended December 31,	**2020**	2019	2018
Revenue	**$ —**	$27,737	$114,416
Direct costs	—	19,494	82,295
Gross profit	—	8,243	32,121
Selling, general and administrative expenses	—	6,988	21,862
Depreciation and amortization	—	307	995
Income from discontinued operations	—	948	9,264
Gain on sale of discontinued operations	—	79,318	—
Other (expense) income, net	—	(436)	9
Income from discontinued operations, before income taxes	—	79,830	9,273
Income tax expense	—	3,534	2,169
Income from discontinued operations, net of tax	**$ —**	$76,296	$ 7,104

The effective tax rates for discontinued operations, including the gain on sale of discontinued operations, were nil, 4.4%, and 23.4% for the years ended December 31, 2020, 2019, and 2018, respectively. For the year ended December 31, 2019, there was minimal income tax obligation for the sale of KGS due to the efficient tax structure of the transaction. The GS effective tax rate for 2018 was positively impacted by the Tax Cut and Jobs Act ("TCJA").

The accompanying Consolidated Statements of Cash Flows are presented on a combined basis (continuing operations and discontinued operations). The following table provides information for the total operating and investing cash flows for the GS segment (in thousands):

Years Ended December 31,	**2020**	2019	2018
Cash Provided by (Used in)			
GS Operating Activities	**$ —**	$ 4,547	$10,937
GS Investing Activities	**$ —**	$117,798	$ (927)

3. REPORTABLE SEGMENTS

Kforce's reportable segments are Tech and FA. Historically, and for the year ended December 31, 2019, 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	Total
2020			
Revenue	**$1,049,628**	**$348,072**	**$1,397,700**
Gross profit	**$ 289,720**	**$106,504**	**$ 396,224**
Operating and other expenses			**321,012**
Income from continuing operations, before income taxes			**$ 75,212**
2019			
Revenue	$1,057,859	$289,528	$1,347,387
Gross profit	$ 292,980	$102,058	$ 395,038
Operating and other expenses			323,642
Income from continuing operations, before income taxes			$ 71,396
2018			
Revenue	$ 990,089	$313,848	$1,303,937
Gross profit	$ 277,388	$109,099	$ 386,487
Operating and other expenses			318,607
Income from continuing operations, before income taxes			$ 67,880

4. DISAGGREGATION OF REVENUE

The following table provides information about disaggregated revenue by segment and revenue type for the years ended December 31 (in thousands):

	Tech	FA	Total
2020			
Flex revenue	**$1,032,901**	**$331,196**	**$1,364,097**
Direct Hire revenue	**16,727**	**16,876**	**33,603**
Total Revenue	**$1,049,628**	**$348,072**	**$1,397,700**
2019			
Flex revenue	$1,037,380	$262,307	$1,299,687
Direct Hire revenue	20,479	27,221	47,700
Total Revenue	$1,057,859	$289,528	$1,347,387
2018			
Flex revenue	$ 971,310	$286,939	$1,258,249
Direct Hire revenue	18,779	26,909	45,688
Total Revenue	$ 990,089	$313,848	$1,303,937

5. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses on trade receivables is determined based on the newly adopted accounting standard that requires companies to estimate and recognize lifetime expected losses, rather than incurred losses, which results in the earlier recognition of credit losses even if the expected risk of credit loss is remote. Upon adoption of the new standard on January 1, 2020, we recognized a credit loss adjustment related to adoption of this accounting standard as a cumulative adjustment to the allowance for credit losses. As part of our analysis, we apply credit loss rates to outstanding receivables by aging category. For certain clients, we perform a quarterly credit review, which considers the client's credit rating and financial position as well as our total credit loss exposure. Trade receivables are written off after all reasonable collection efforts have been exhausted. Recoveries of trade receivables previously written off are recorded when received and are immaterial for the year ended December 31, 2020.

The following table presents the activity within the allowance for credit losses on trade receivables for the year ended December 31, 2020 (in thousands):

Allowance for credit losses, January 1, 2020(1)	$ 1,843
Current period provision	2,130
Write-offs charged against the allowance, net of recoveries of amounts previously written off	(1,216)
Allowance for credit losses, December 31, 2020	$ 2,757

(1) As a result of the adoption of the new credit losses accounting standard, we recorded a cumulative effect adjustment to increase the allowance for credit losses of $0.3 million as of January 1, 2020.

6. FIXED ASSETS, NET

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

December 31,	USEFUL LIFE	**2020**	2019
Land		**$ 5,892**	$ 5,892
Building and improvements	3-40 years	**25,964**	25,990
Furniture and equipment	1-10 years	**6,926**	8,760
Computer equipment	1-5 years	**5,472**	6,446
Leasehold improvements	1-8 years	**6,185**	9,482
Total fixed assets		**50,439**	56,570
Less accumulated depreciation		**(23,635)**	(26,595)
Total Fixed assets, net		**$ 26,804**	$ 29,975

Depreciation expense was $4.1 million, $4.9 million and $5.7 million during the years ended December 31, 2020, 2019 and 2018, respectively.

7. INCOME TAXES

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

Years Ended December 31,	**2020**	2019	2018
Current tax expense:			
Federal	**$17,278**	$12,074	$12,032
State	**4,119**	5,057	5,369
Deferred tax expense	**(2,224)**	(301)	(397)
Total Income tax expense	**$19,173**	$16,830	$17,004

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,	**2020**	2019	2018
Federal income tax rate	**21.0%**	21.0%	21.0%
State income taxes, net of Federal tax effect	**5.3**	5.8	6.1
Non-deductible compensation and meals and entertainment	**1.4**	1.6	1.7
Tax credits	**(1.5)**	(2.1)	(2.5)
Tax benefit from restricted stock vesting	**(1.5)**	(1.6)	(0.8)
Other	**0.8**	(1.1)	(0.4)
Effective tax rate	**25.5%**	23.6%	25.1%

The 2020 effective tax rate was unfavorably impacted by a lower Work Opportunity Tax Credit in 2020 versus 2019, and the 2019 effective tax rate was favorably impacted primarily by a greater tax benefit from the vesting of restricted stock and a favorable tax adjustment related to our valuation allowance on the foreign tax credit.

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

December 31,	**2020**	2019
Deferred tax assets:		
Accounts receivable reserves	**$ 829**	$ 542
Accrued liabilities	**1,657**	1,161
Deferred compensation obligation	**5,046**	4,715
Stock-based compensation	**618**	739
Operating lease liabilities	**5,223**	5,497
Pension and post-retirement benefit plans	**3,721**	3,745
Deferred payroll taxes	**4,978**	—
Other	**461**	160
Deferred tax assets	**22,533**	16,559
Deferred tax liabilities:		
Prepaid expenses	**(489)**	(459)
Fixed assets	**(2,811)**	(965)
Deferred payroll taxes	**(2,370)**	(1,889)
ROU assets for operating leases	**(4,347)**	(4,767)
Partnership basis difference	**(1,469)**	—
Other	**(309)**	(328)
Deferred tax liabilities	**(11,795)**	(8,408)
Valuation allowance	**—**	(114)
Total Deferred tax assets, net	**$ 10,738**	$ 8,037

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. In 2019, management elected to treat foreign taxes paid as a deduction on our tax return and, accordingly, reversed the deferred tax asset and corresponding valuation allowance during the year ended December 31, 2019.

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. 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,	**2020**	2019	2018
Unrecognized tax benefits, beginning	**$ 383**	$ 906	$1,127
Additions for prior year tax positions	**—**	—	41
Additions for current year tax positions	**—**	—	—
Lapse of statute of limitations	**(188)**	(497)	(248)
Reductions for tax positions of prior years	**(13)**	—	(14)
Settlements	**—**	(26)	—
Unrecognized tax benefits, ending	**$ 182**	$ 383	$ 906

As of December 31, 2020, the amount of unrecognized tax benefit that would impact the effective tax rate, if recognized, is $0.2 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. 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 2017.

8. OTHER ASSETS, NET

Other assets, net consisted of the following (in thousands):

December 31,	**2020**	2019
Assets held in Rabbi Trust	**$36,164**	$35,413
ROU assets for operating leases, net	**16,835**	18,344
Equity method investment	**10,488**	8,169
Capitalized software, net(1)	**12,802**	8,759
Deferred loan costs, net	**501**	855
Other non-current assets	**785**	1,298
Total Other assets, net	**$77,575**	$72,838

(1) Accumulated amortization of capitalized software was $34.0 million and $34.2 million as of December 31, 2020 and 2019, respectively.

9. GOODWILL

The following table presents the gross amount and accumulated impairment losses for each of our reporting units as of December 31, 2020, 2019 and 2018 (in thousands):

	Tech	FA	Total
Goodwill, gross amount	$ 156,391	$ 19,766	$ 176,157
Accumulated impairment losses	(139,357)	(11,760)	(151,117)
Goodwill, carrying value	$ 17,034	$ 8,006	$ 25,040

There was no impairment expense related to goodwill for each of the years ended December 31, 2020, 2019 and 2018.

Management performed its annual impairment assessment of the carrying value of goodwill as of December 31, 2020 and 2019. For each of our 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. Based on the qualitative assessments, management determined that it was not more likely than not that the fair values of the reporting units were less than the carrying values at December 31, 2020 and 2019. A deterioration in any of the assumptions could result in an impairment charge in the future.

10. CURRENT LIABILITIES

The following table provides information on certain current liabilities (in thousands):

December 31,	**2020**	2019
Accounts payable	**$20,177**	$20,267
Accrued liabilities	**15,356**	12,965
Total Accounts payable and other accrued liabilities	**$35,533**	$33,232
Payroll and benefits	**$38,257**	$38,035
Payroll taxes	**21,842**	992
Health insurance liabilities	**4,641**	3,907
Workers' compensation liabilities	**1,109**	1,067
Total Accrued payroll costs	**$65,849**	$44,001

Our accounts payable balance includes vendor and independent contractor payables. Our accrued liabilities balance includes approximately $19.3 million in payroll tax payments as a result of the application of the CARES Act 2020, the current portion of our deferred compensation plans liability, contract liabilities from contracts with customers (such as customer rebates) and other accrued liabilities.

11. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following (in thousands):

December 31,	**2020**	2019
Deferred compensation plan	**$34,501**	$30,361
Supplemental executive retirement plan	**20,628**	18,080
Operating lease liabilities	**14,692**	14,627
Interest rate swap derivative instrument	**1,774**	179
Other long-term liabilities(1)	**19,353**	651
Total Other long-term liabilities	**$90,948**	$63,898

(1) As a result of the application of the CARES Act, we have approximately $19.3 million in payroll tax payments recorded within Other long-term liabilities as of December 31, 2020. This amount is expected to be paid during our fiscal year ending December 31, 2022.

12. OPERATING LEASES

The following table presents weighted-average terms for our operating leases:

December 31,	**2020**	2019
Weighted-average discount rate	**3.5%**	3.8%
Weighted-average remaining lease term	**4.5 years**	4.5 years

The following table presents operating lease expense included in SG&A (in thousands):

December 31,	**2020**	2019
Lease Cost		
Operating lease expense	**$7,669**	$6,847
Variable lease costs	**1,387**	1,689
Short-term lease expense	**855**	792
Sublease income	**(344)**	(445)
Total operating lease expense	**$9,567**	$8,883

The following table presents the maturities of operating lease liabilities as of December 31, 2020 (in thousands):

2021	$ 6,115
2022	4,390
2023	3,997
2024	2,938
2025	2,033
Thereafter	2,444
Total maturities of operating lease liabilities	21,917
Less: imputed interest	1,705
Total operating lease liabilities	$20,212

13. 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 the Board. Kforce accrued matching 401(k) contributions for continuing operations of $1.7 million and $1.4 million as of December 31, 2020 and 2019, 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 19 thousand, 17 thousand, and 19 thousand shares of common stock at an average purchase price of $29.43, $32.79 and $28.93 per share during the years ended December 31, 2020, 2019 and 2018, 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, 2020 and 2019, amounts related to the deferred compensation plans included in Accounts payable and other accrued liabilities were $4.2 million and $3.6 million, respectively, and $34.5 million and $30.4 million was included in Other long-term liabilities at December 31, 2020 and 2019, respectively, in the Consolidated Balance Sheets. For the years ended December 31, 2020, 2019 and 2018, we recognized compensation expense for the plans of $1.0 million, $0.4 million and $0.8 million, 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 the Rabbi Trust. During the year ended December 31, 2020, the Company received proceeds of $3.5 million from the sale of Company-owned life insurance policies. The balance of the assets held within the Rabbi Trust, including the cash surrender value of the Company-owned life insurance policies, was $36.2 million and $35.4 million as of December 31, 2020 and 2019, respectively, and is recorded in Other assets, net in the accompanying Consolidated Balance Sheets. As of December 31, 2020, the life insurance policies had a net death benefit of $169.6 million.

Supplemental Executive Retirement Plan

Kforce maintains a SERP for the benefit of two executive officers. 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. Both participants are fully vested in accordance with the plan's provisions. The SERP will be funded entirely by Kforce, and benefits are taxable to the covered executive officer upon receipt and will be deductible (though may not be fully 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. 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, 2020, Kforce has assumed that both 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, 2020 and 2019, 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,	**2020**	2019
Discount rate	**2.00%**	2.75%
Rate of future compensation increase	**2.90%**	2.90%

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

December 31,	**2020**	2019	2018
Discount rate	**2.75%**	4.00%	3.25%
Rate of future compensation increase	**2.90%**	2.90%	2.90%

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 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, management 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,	**2020**	2019	2018
Service cost	**$345**	$261	$1,353
Interest cost	**497**	601	468
Net periodic benefit cost	**$842**	$862	$1,821

The service cost is recorded in SG&A and the interest cost is recorded in Other expense, net in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Changes in Benefit Obligation

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

December 31,	**2020**	2019
Projected benefit obligation, beginning	**$18,080**	$15,035
Service cost	**345**	261
Interest cost	**497**	601
Actuarial experience and changes in actuarial assumptions	**1,706**	2,183
Projected benefit obligation, ending	**$20,628**	$18,080

There were no payments made under the SERP during the years ended December 31, 2020 and 2019, 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, 2020 and 2019 was $20.6 million and $18.1 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, 2020. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2021.

Estimated Future Benefit Payments

Undiscounted projected benefit payments attributed to the SERP, which reflect the anticipated future service of participants, are expected to be paid as follows during the years ended December 31 (in thousands):

Projected Annual Benefit Payments

2021	$ —
2022	15,231
2023	—
2024	—
2025	—
2025-2030	9,736

The estimated future benefit amounts and timing of these payments were determined using assumed retirement dates for the participants, among other assumptions, as of December 31, 2020; however, no specific plans or timelines have been established for or by these participants and the assumptions are subject to change, which could impact the future amounts and timing of payments.

14. CREDIT FACILITY

On May 25, 2017, the Firm entered into the Credit Facility with Wells Fargo Bank, N.A., 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. Under the Credit Facility, the Firm has 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, which is 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 collateral.

Revolving credit loans under the Credit Facility bears 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 bears 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, N.A. 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 is 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, 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, 2020, Kforce was not limited in making distributions and executing repurchases of our equity securities.

In an effort to address the pending economic disruption from the COVID-19 crisis, we took a proactive measure in March 2020 to draw down $35.0 million under our credit facility. We took this proactive action to take advantage of historically low interest rates and reduce potential risks of not being able to access the availability under our credit facility. As of December 31, 2020 and 2019, $100.0 million and $65.0 million was outstanding on the Credit Facility, respectively. Kforce had $1.5 million and $3.4 million of outstanding letters of credit at December 31, 2020 and 2019, respectively, which pursuant to the Credit Facility, reduces the availability.

15. 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 rising interest rates on our variable rate debt.

On April 21, 2017, Kforce entered into Swap A. Swap A was effective on May 31, 2017 and matures on April 29, 2022. Swap A has a rate of 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 Swap A based on the notional amount of Swap A. The notional amount of Swap A through maturity is $25.0 million.

On March 12, 2020, Kforce entered into Swap B. Swap B was effective on March 17, 2020 and matures on May 30, 2025. Swap B has a fixed interest rate of 0.61% and a notional amount of $75.0 million and increases to $100.0 million in May 2022, and subsequently decreases $75.0 million and $40.0 million in May 2023 and May 2024, respectively. The increases in the notional amount of Swap B correspond to the decreases in the notional amount of Swap A.

The Firm uses the Swaps as an interest rate risk management tool to mitigate the potential impact of rising interest rates on variable rate debt. The fixed interest rate for each swap, plus the applicable interest margin under our Credit Facility, is included in interest expense and recorded in Other expense, net in the accompanying Consolidated Financial Statements of Operations and Comprehensive Income. Both Swap A and B have been designated as cash flow hedges and were effective as of December 31, 2020. The change in the fair value of the Swaps are recorded as a component of Accumulated other comprehensive (loss) income in the consolidated financial statements.

The following table sets forth the activity in the accumulated derivative instrument gain (loss) for the years ended (in thousands):

December 31,	**2020**	2019
Accumulated derivative instrument gain, beginning of year	**$ (179)**	$ 900
Net change associated with current period hedging transactions	**(1,595)**	(1,079)
Accumulated derivative instrument loss, end of year	**$(1,774)**	$ (179)

16. FAIR VALUE MEASUREMENTS

The Swaps are measured at fair value using readily observable inputs, such as the LIBOR interest rate, which are considered to be Level 2 inputs. Refer to Note 15 — "Derivative Instrument and Hedging Activity" in the Notes to the Consolidated Financial Statements, included in this report for a complete discussion of the Firm's derivative instruments.

Certain assets, in specific circumstances, are measured at fair value on a non-recurring basis utilizing Level 3 inputs such as goodwill, other long-lived assets and the equity method investment. 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 following table sets forth by level, within the fair value hierarchy, estimated fair values on a recurring basis at December 31, 2020 and 2019 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)
At December 31, 2020				
Recurring basis:				
Interest rate swap derivative instruments	**$(1,774)**	**$ —**	**$(1,774)**	**$ —**
At December 31, 2019				
Recurring basis:				
Interest rate swap derivative instrument	$ (179)	$ —	$ (179)	$ —

There were no transfers into or out of Level 1, 2 or 3 assets or liabilities during the years ended December 31, 2020 and 2019.

17. STOCK INCENTIVE PLANS

On April 22, 2020, the Kforce shareholders approved the 2020 Stock Incentive Plan (the "2020 Plan"). The 2020 Plan allows for the issuance of stock options, stock appreciation rights, stock awards (including restricted stock awards ("RSAs") and restricted stock units ("RSUs")) and other stock-based awards. The aggregate number of shares of common stock that are subject to awards under the 2020 Plan is approximately 3.7 million shares. The 2020 Plan terminates on April 28, 2030. Prior to the effective date of the 2020 Plan, the Company granted stock awards to eligible participants under our 2017 Stock Incentive Plan, 2016 Stock Incentive Plan and 2013 Stock Incentive Plan (collectively the "Prior Plans"). As of the effective date of the 2020 Plan, 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, 2020, 2019 and 2018, stock-based compensation expense was $11.6 million, $9.8 million and $8.5 million, respectively. The related tax benefit for the years ended December 31, 2020, 2019 and 2018 was $3.4 million, $2.3 million, and $2.1 million, respectively.

Restricted Stock

Restricted stock (including RSAs and RSUs) are granted to executives and management either: for awards related to Kforce's annual long-term incentive ("LTI") compensation program, or as part of a compensation package in order to retain directors, executives and management. The LTI award amounts are based on Kforce's total shareholder return versus a pre-defined peer group. The LTI restricted stock granted during the year ended December 31, 2020, will vest ratably over a period of three to four years. Other restricted stock granted during the year ended December 31, 2020, will vest ratably over a period of one to ten years.

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, 2020, (in thousands, except per share amounts):

	Number of Restricted Stock	Weighted-Average Grant Date Fair Value	Total Instrinsic Value of Restricted Stock Vested
Outstanding at December 31, 2019	1,180	$ 29.51	
Granted	**410**	**$40.11**	
Forfeited/Canceled	**(12)**	**$22.62**	
Vested	**(441)**	**$28.94**	**$17,958**
Outstanding at December 31, 2020	**1,137**	**$33.63**	

The weighted-average grant date fair value of restricted stock granted was $40.11, $38.37 and $29.72 during the years ended December 31, 2020, 2019 and 2018, respectively. The total intrinsic value of restricted stock vested was $18.0 million, $18.8 million and $11.9 million during the years ended December 31, 2020, 2019 and 2018, respectively.

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, 2020, total unrecognized stock-based compensation expense related to restricted stock was $35.7 million, which will be recognized over a weighted-average remaining period of 3.3 years.

18. COMMITMENTS AND CONTINGENCIES

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, 2020, these purchase commitments amounted to approximately $11.7 million and are expected to be paid as follows: $9.3 million in 2021; $1.5 million in 2022 and $0.3 million in years 2023, 2024 and 2025, respectively.

Letters of Credit

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2020, Kforce had letters of credit outstanding for operating lease and insurance coverage deposits totaling $1.5 million.

Litigation

We are involved in legal proceedings, claims and administrative matters that arise in the ordinary course of 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.

On August 23, 2019, Kforce Inc. was served with a complaint, as amended, brought in the U.S. District Court, Middle District of Florida, Tampa Division. Maurcus Smith, Alvin Hodge and David Kortright, et al. v. Kforce Inc., Case No.: 8:19-cv-02068-CEH-CPT. The plaintiffs purport to bring claims on their own behalf and on behalf of a putative class of consumers/applicants who were the subject of consumer reports used for employment purposes for alleged violations of the Fair Credit Reporting Act of 1970, as amended, ("FCRA"), 15 U.S.C. § 1681 et seq. based upon the defendant's purported failure to provide stand-alone FCRA disclosures and obtain valid authorizations. The plaintiffs seek statutory damages, punitive damages, costs, attorney's fees and other relief under the FCRA. On February 10, 2020, the parties reached a preliminary settlement of the case. The Court approved the preliminary settlement on December 9, 2020 and scheduled a final fairness hearing for April 16, 2021. We believe that this matter is unlikely to have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows.

On December 17, 2019, Kforce Inc., et al. was served with a complaint brought in Superior Court of the State of California, Alameda County. Kathleen Wahrer, et al. v. Kforce Inc., et al., Case No.: RG19047269. The former employee purports to bring a representative action on her own behalf and on behalf of other current and former aggrieved employees pursuant to Private Attorneys General Act ("PAGA") alleging violations of the California Labor Code ("Labor Code"). The purported Labor Code violations include failure to provide and pay proper wages for meal and rest periods, failure to properly calculate and pay minimum and overtime wages, failure to provide compliant wage statements, failure to timely pay wages during employment and upon termination, and failure to reimburse business expenses. The plaintiff seeks civil penalties, interest, attorneys' fees and costs under the Labor Code. At this stage in the litigation it is not feasible to predict the outcome of this matter or reasonably estimate a range of loss, should a loss occur, from this proceeding.

On November 18, 2020, Kforce Inc., et al. was served with a complaint brought in the Superior Court of the State of California, San Diego County. Bernardo Buchsbaum, et al. v. Kforce Inc., et al., Case No.: 37-2020-00030994-CU-OE-CTL. The former employee purports to bring a representative action on his own behalf and on behalf of other current and former California aggrieved employees pursuant to the Private Attorneys General Act ("PAGA") alleging violations of the California Labor Code ("Labor Code"). The purported Labor Code violations include the failure to: (i) pay all earned wages, including minimum wages and overtime wages; (ii) provide and pay proper wages for meal and rest periods; (iii) reimburse all reasonable and necessary business expenses; (iv) provide accurate itemized wage statements; and (v) provide unused vacation wages upon termination. The plaintiff seeks civil penalties, interest, attorney's fees and costs under the Labor Code. On January 21, 2021, the Plaintiff served an amended complaint to add Kforce Flexible Solutions as a party and narrow the scope of alleged aggrieved employees to "internal" commissioned employees. At this stage in the litigation it is not feasible to predict the outcome of this matter or reasonably estimate a range of loss, should a loss occur, from this proceeding.

On October 13, 2020, Kforce Inc. was served with a complaint brought in the U.S. District Court, Eastern District of Pennsylvania. Hope Gofton and Adam Kimbrel, et al. v. Kforce Inc., Case No.: 2:20-cv-04886 on behalf of themselves and other similarly situated current and former employees. The plaintiffs purport to bring a collective action for alleged violations of the Fair Labor Standards Act, 29 U.S.C. § 201, et seq., and a class action for alleged violations of the Pennsylvania Minimum Wage Act, 43 P.S. §§ 333.101, et seq., based upon the defendant's purported failure to pay federal and state overtime wages. The plaintiffs allege that the defendant improperly classified as exempt the plaintiffs and other putative collective and class members, and allegedly failed to pay overtime wages. The plaintiffs seek payment of unpaid overtime wages, liquidated damages, interest, attorney's fees, costs and other relief deemed equitable by the Court. At this stage in the litigation, it is not feasible to predict the outcome of this matter or reasonably estimate a range of loss, should a loss occur, from this proceeding.

On December 24, 2020, a complaint was filed and on January 5, 2021, the complaint was served against Kforce Inc., et al. in Superior Court of the State of California, Los Angeles County. Sydney Elliott-Brand, et. al. v. Kforce Inc., et al., Case No.: 20STCV49193. On behalf of herself and a putative class of current and former commissioned employees employed by Defendants, the plaintiff purports to bring a collective action for alleged violations of the California Labor Code, §201, et seq., Industrial Welfare Commission ("IWC") Wage Orders, and the California Business and Professions Code, §17200, et. seq, based upon the defendants' alleged failure to: (i) pay minimum and overtime wages; (ii) timely pay all earned wages; (iii) provide meal periods and rest breaks; (iv) reimburse business expenses; (v) provide accurate itemized wage statements; and (vi) timely pay wages and vacation pay upon separation of employment; as well as associated unfair competition. The plaintiff seeks payment to recover minimum, regular, and/or overtime wages for all hours worked as required by law, meal period premiums, rest period premiums, unpaid business expenses, reasonable attorneys' fees, cost of suit and interest, statutory penalties and liquidated damages, and also seeks an order requiring Defendants to restore and disgorge all funds acquired by means of unfair competition under the California Business and Professions Code. At this stage in the litigation it is not feasible to predict the outcome of this matter or reasonably estimate a range of loss, should a loss occur, from this proceeding.

Employment Agreements

Kforce has 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 ranging from 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 subject to certain post-employment restrictive covenants. At December 31, 2020, our liability would be approximately $45.0 million if, following a change in control, all of the executives under contract were terminated without good cause by the employer or if the executives resigned for good reason and $17.2 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.

19. QUARTERLY FINANCIAL DATA (UNAUDITED)

Our quarterly operating results are affected by the number of billing days in a particular quarter, the seasonality of our clients' businesses and increased holiday and vacation days taken. In addition, we typically experience an increase in costs in the first quarter of each fiscal year as a result of certain U.S. state and federal employment tax resets, which negatively impact our gross profit and overall profitability. The results of operations for any interim period may be impacted by these factors and are not necessarily indicative of, nor comparable to, the results of operations for a full year.

The following table provides quarterly information for the years ended December 31, 2020 and 2019 (in thousands, except per share amounts):

Three Months Ended	March 31	June 30	September 30	December 31
2020				
Revenue	**$335,208**	**$343,020**	**$365,424**	**$354,048**
Gross profit	**94,524**	**97,361**	**103,878**	**100,461**
Income from continuing operations	**9,106**	**9,885**	**18,763**	**18,285**
Income (loss) from discontinued operations, net of tax	**—**	**—**	**—**	**—**
Net income	**$ 9,106**	**$ 9,885**	**$ 18,763**	**$ 18,285**
Earnings per share — basic, continuing operations	**$0.42**	**$0.48**	**$0.90**	**$0.88**
Earnings per share — diluted, continuing operations	**$0.42**	**$0.47**	**$0.89**	**$0.86**
Earnings per share — basic	**$0.42**	**$0.48**	**$0.90**	**$0.88**
Earnings per share — diluted	**$0.42**	**$0.47**	**$0.89**	**$0.86**
2019				
Revenue	$326,738	$338,861	$345,558	$336,230
Gross profit	93,176	101,026	102,811	98,025
Income from continuing operations	7,974	16,076	15,907	14,609
Income (loss) from discontinued operations, net of tax	18,881	58,783	(967)	(401)
Net income	$ 26,855	$ 74,859	$ 14,940	$ 14,208
Earnings per share — basic, continuing operations	$0.33	$0.67	$0.70	$0.68
Earnings per share — diluted, continuing operations	$0.32	$0.66	$0.68	$0.66
Earnings per share — basic	$1.10	$3.13	$0.66	$0.66
Earnings per share — diluted	$1.07	$3.06	$0.64	$0.64

During the second quarter of 2019, in connection with the disposition of the GS segment, income from discontinued operations included a gain on the sale of discontinued operations, net of transactions costs, of $80.0 million. There were post-closing working capital adjustments included in the loss from discontinued operations during the third and fourth quarter of 2019 of $0.4 million and $0.3 million, respectively. Refer to Note 2 — “Discontinued Operations” for a more detailed discussion.

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CORPORATE INFORMATION

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CHC Advisors, LLC

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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
Lead Independent Director

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Chief Financial Officer
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Kye L. Mitchell
Chief Operations Officer

Andrew G. Thomas
Chief Marketing Officer

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Chief Corporate
Development Officer

Jeffrey B. Hackman
Senior Vice President,
Finance and Accounting

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 22, 2021 at 8:00 a.m. ET 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®

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(813) 552-5000

OFFICE LOCATIONS

ARIZONA
Phoenix

CALIFORNIA
Costa Mesa
Culver City
La Jolla (San Diego)
San Ramon

COLORADO
Denver

CONNECTICUT
Rocky Hill
Shelton

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

GEORGIA
Atlanta

ILLINOIS
Chicago
Rolling Meadows

KENTUCKY
Louisville

MARYLAND
Linthicum (Baltimore)

MASSACHUSETTS
Boston
Burlington

MICHIGAN
Grand Rapids
Southfield (Detroit)

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St. Louis

NEW YORK
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