KFORCE℠

Annual Report **2021**

We love what we **do.**
We love who we **serve.**®

KFORCE℠

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.

TO OUR FELLOW SHAREHOLDERS, CLIENTS, CONSULTANTS AND EMPLOYEES:

Throughout the pandemic there have been countless challenges, however, opportunities have emerged, and Kforce has remained steadfast in following our vision... "To have a meaningful impact on all the lives we serve®." ***To that end, I would like to thank the many Kforcers for their fortitude, creativity, innovation, and resilience during these unprecedented times. Together, we delivered the best performance in our nearly 60-year operating history and advanced our strategic objectives while balancing the need to evolve with the changes in the external environment.***

The last two years will no doubt be prominently featured in the historical records for many years to come. Collectively, we have dealt with the sudden impacts from the COVID-19 pandemic and its dramatic effect on businesses, communities, and families across the world. While navigating the devastating impacts of the economic and health crisis, our nation experienced civil unrest and other social issues, political turmoil and discord and a change in administration. More recently, we have battled the continued impacts of several variants of COVID-19, inflationary pressures in the U.S., supply-chain disruption, volatility in the equity markets, tightness in the labor markets and the great resignation among many other dynamics.

Over the past decade, we have sharpened our focus and now have roughly 85% of our business focused on providing technology talent solutions. We are eager to build upon our tremendous success over the last several years in 2022 and beyond. We will continue to refine and elevate our offerings, so we can remain a valued strategic partner to our world-class and innovative clients and tremendous consultants.

In December 2021, we announced Dave Dunkel's transition to Chairman after also serving as Chief Executive Officer (CEO) for more than 40 years. We are fortunate to have Dave's continued involvement in the strategic aspects of our business. I have been blessed to work side-by-side with Dave for the past 34 years. I am humbled and honored with the opportunity to uphold the standard of excellence that Dave established. Our entire team's heartfelt thanks and appreciation goes out to Dave for his leadership, mentorship, and support. Due in large respect to his leadership, our values, which are foundational to Kforce's strategy, are extremely well entrenched. Our executive leadership team has extraordinary depth and tenure to lead our team forward, and our prospects have never been brighter in our 60 plus year history. Our path forward is clear, and we will uphold the principles under which we have been operating so successfully for many years.

In the sections below, I will give you some additional insights.

OUR KEY STRATEGIC, OPERATIONAL AND FINANCIAL ACCOMPLISHMENTS

Despite the challenges in the U.S. macro-economic environment, 2021 was a year of exceptional performance for Kforce and marked the most successful year in our storied history. We generated significant value for our shareholders in 2021 and over the past five years as reflected by our rolling three-year total shareholder return peer group ranking of #1 in 2019 and 2020 followed by a #2 ranking in 2021. Over this same time period we have made significant advancements to further solidify Kforce to continue providing significant shareholder value over the long term.

2021 was a year of exceptional performance for Kforce and marked the most successful year in our storied history.

Key Financial Accomplishments

- Revenue for the year ended December 31, 2021 was approximately $1.6 billion, an increase of nearly 14% year-over-year, per billing day. Excluding the negative impact from planned declines in our COVID-19 business, revenues grew 18.5% organically in 2021, a Kforce record.
- Best-in-class growth in our Technology business. Revenues increased approximately 22% year-over-year, per billing day, and exceeded 30% growth on a year-over-year basis in the second half of 2021. Both metrics represented Kforce records.
- We were successful at continuing to capture additional market share in our Technology business as revenues exceeded the market benchmark established by Staffing Industry Analysts (SIA) of 11% for 2021 growth by a factor of 2x for the full year and nearly 3x in the second half of 2021.
- Growth in our managed teams and project solutions offering within our Technology business significantly outplaced overall Technology growth in 2021.
- Made significant progress repositioning our FA business towards more highly skilled assignments that are less susceptible to automation and better align with the technology skill sets we support, as is evidenced by bill rates increasing nearly 10% year-over-year.
- Earnings per share of $3.54, a Kforce record, increased approximately 35% year-over-year, as we benefited from improved gross margins (up 60 basis points year-over-year) and SG&A leverage from our revenue growth.
- We continued returning significant capital to our shareholders. In 2021, we returned $74.5 million of capital in the form of open market repurchases totaling $54.4 million and dividends totaling $20.1 million.

- Our total shareholder return for 2021 was slightly more than 80%, which ranked 2nd within our peer group of 15 companies and significantly exceeded the returns for the S&P 500, Dow Jones Industrial and Nasdaq indexes.

Other Key Accomplishments

- Meaningfully progressed our *Kforce Reimagined* initiative, which is discussed in some detail below.
- Advanced our Board of Directors (Board) refreshment activities by welcoming Mr. Derrick Brooks to our Board in 2021.
- Made substantive advancements in our Environment, Social and Governance (ESG) activities, which are discussed in more detail in the section below.
- Went live with the final phase of the initial functionality of our Talent Relationship Management (TRM) system and continued investments to further advance its capabilities, along with many other technology platforms.
- We initiated our Back Office Transformation (BOT) initiative, which is a multi-year program aimed at dramatically improving our capability to further enhance the efficiency by which we support the Firm in meeting our client, candidate, and consultant requirements.
- Successfully held our first Firm-wide virtual conference on December 13, 2021, where we rolled out our strategic priorities, refreshed core values, new logo, and several Firm-wide initiatives.
- Advanced our Destination Employer initiative, which is aimed at retaining and attracting top talent.
- We continue to have the highest Glassdoor rating among our peers as well as maintaining a world class net promoter score from our clients and consultants.
- Kforce was named the most recognized firm by technology consultants per SIA.

SHAPING THE FUTURE OF KFORCE WORK

Shortly after the onset of the COVID-19 pandemic, in May 2020, we launched an initiative that we refer to as *Kforce Reimagined*. A key objective of this initiative was to define Kforce's future work environment because it was abundantly clear to us in the early stages of the pandemic that a permanent shift in the workplace — largely driven by employee preferences reshaping where and how work is performed — had begun to evolve.

Consistent with our management philosophy at Kforce, *Kforce Reimagined* has been anything but a top-down initiative. Rather, this was driven by our associates and has proven to be successful because we empowered our team with a strong voice by conducting continuous pulse checks, surveys, townhall sessions and other collaborative voices of the associate avenues.

Our future work environment, which we refer to as *Office Occasional*, will provide our associates with maximum flexibility and choice in designing their workdays that is grounded in our trust in them and supported by technology. *Office Occasional* is a remote-first approach to support the life/work balance our team has become accustomed to as we moved through the pandemic. Our people will also have the flexibility to leverage physical office spaces, when desirable, for activities best done through in-person, active collaboration such as onboarding, training, team building, and client and candidate interactions.

The Shift in our Real Estate Portfolio

To support our *Office Occasional* work environment, we have made significant progress enhancing our processes and accelerating the digitalization of our technology platforms as well as optimizing our real estate portfolio and redesigning our future office space, including:

- In May 2021, we completed the sale of our Tampa, Florida Corporate HQ campus — consisting of roughly 130,000 square feet of space — for approximately $24 million.
- In September 2021, we signed a long-term lease for approximately 23,000 square feet of space for our new Corporate HQ (also in Tampa, Florida) in a vibrant area called Midtown Tampa. Midtown Tampa is a $500 million, 20-acre, mixed-use development featuring 1.8 million square feet of retail, restaurants, office buildings, hotels and luxury apartments surrounding a 4-acre park.
- Our Midtown Tampa HQ will be state-of-the-art with different types of work zones/areas to support different types of work.
- We have rationalized our real estate portfolio from 51 properties (50 leased) pre-pandemic to 36 leased properties and implemented cutting-edge technologies in each office to ensure remote and in-office work is seamlessly connected and executed.

We believe how we have shaped the future of Kforce work whereby we will provide our associates flexibility and choice — that is rooted in trust and supported by state-of-the-art technology — will play a meaningful role in our ability to further capture market share while also positioning Kforce as a destination for top talent.

OUR ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) FOCUS

In addition to delivering solid returns to our shareholders, Kforce fully recognizes that the expectations of our stakeholders have evolved greatly over the last several years to include ESG matters. To that degree, we have a critical role to play in reducing our overall impact on the environment, driving effective positive social change through our corporate social responsibility efforts, and exercising sound corporate governance. I am proud of our teams' efforts to meaningfully progress our focus as it relates to ESG matters, as follows:

- To protect our employee's well-being during the pandemic, we have been working 100% remotely since March 2020 and limited all non-essential travel. This has dramatically reduced our environmental impact.
- Certain strategic decisions for Kforce have significantly reduced our overall carbon footprint, including: (i) the definition of our *Office Occasional* work environment has dramatically reduced the number of associates driving into a Kforce office each day and (ii) to accommodate our future work environment, we expect our overall physical real estate square footage to be at least 60% to 70% lower once fully transitioned.
- Our Board is now currently comprised of 40% diverse members in terms of gender and race, a significant improvement over the last few years.
- Conducted an educational session with our Board in April 2021 facilitated by several leading experts in ESG and related matters.
- Initiated our Diversity, Equity & Inclusion (DE&I) learning journey, which included Firm-wide emotional intelligence, unconscious bias sessions and listening sessions facilitated by outside specialists.

Our future work environment, which we refer to as Office Occasional*, will provide our associates with maximum flexibility and choice in designing their workdays that is grounded in our trust in them and supported by technology.*

- Formed our inaugural DE&I Council, which is comprised of a group of associates and leaders within Kforce who will collaborate to influence strategy, culture and sustain a holistic inclusive environment.
- Positively impacted the communities in which we serve in many different ways. A small sample that are attached to our mission are: (i) we hosted our annual Kforce Kids' STEM Fair, (ii) sponsored Coding for a Change, a five-week program for high school students, and iii) introduced our Season of Impact, a two-month initiative encouraging employees to make a difference in causes of their choice, along with countless stewardship time invested by our people in support of organizations like Junior Achievement, Feeding America, Best Buddies, Special Operations Warrior Foundation and American Heart Association.

OUR EXPECTATIONS FOR 2022

Overall, we believe we are in an exceptional place and couldn't be more excited about our future growth prospects. It is clear to us that the strategic decision to focus our business on the domestic technology talent solutions market is paying dividends. There is simply no other market we would want to be focused on as it has, in our view, long-term secular drivers creating the greatest prospects for sustained profitable revenue growth. 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. Digitalization is table stakes in the "New Normal." No company can afford to opt out, or even be slow to adopt, digital transformation.

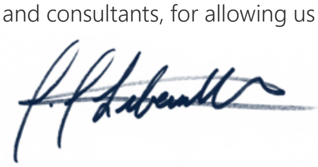
Our shareholders continue to benefit from our strong above-market performance and efficient capital allocation. We are excited about our prospects for growth in 2022 given the significant momentum we have created throughout the pandemic, which meaningfully accelerated in 2021. We expect this growth to result in continued expansion of our operating margins and significant increases in earnings per share while allowing continued investments in our people and technology, both of which we believe benefit our shareholders in the long term.

To assist our shareholders and analysts in better understanding our expectations of growth and profitability, we provided additional information in connection with the release of our fourth quarter 2021 financial results. Our expectations for 2022 are:

- Revenue of at least $1.7 billion
- Earnings per share of at least $4.20
- Operating margins of at least 7.0%

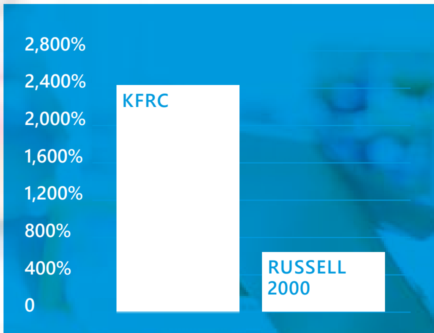
The above expectations contemplate: (a) solid continued growth in our Technology business of at least 15% year-over-year; (b) an overall decline in our FA business due to the year-over-year impact of the repositioning of our business to focus on higher skilled positions and the elimination of COVID-19 revenue streams with a partial offset of market growth in our ongoing FA business; and (c) enhanced profitability levels. This growth would suggest that our Technology business would represent more than 85% of overall revenues heading into 2023.

Given that we are in the early stage of a 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 well-thought-out, long-term strategy, 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.



Joseph J. Liberatore
President and Chief Executive Officer
Director

Our total shareholder return (TSR) since going public in August 1995 has been approximately 2,420%, roughly 3.7 times greater than the Russell 2000 over the same period.



Kforce TSR vs. Russell 2000 Index stock performance from 8/15/95 (IPO) to 12/31/21

Technology

As the 6th largest technology staffing and solutions firm in the U.S., we engage more than 18,000 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.

ENTERPRISE DATA MANAGEMENT supports any operating environment from unstructured to mature Big Data.

BUSINESS AND ARTIFICIAL INTELLIGENCE supports technology that automates repetitive learning and adds intelligence to existing products through progressive learning techniques.

PROJECT MANAGEMENT AND SOLUTIONS offers a full suite of functional professionals to support the full scope of your initiative.

INFRASTRUCTURE specializes in providing reliable infrastructure support to build and maintain the backbone of your organization.

SECURITY for today's complex network infrastructure and evolving threats.

Finance and Accounting

As the 3rd largest finance and accounting staffing firm in the U.S., we engage more than 10,000 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 with a 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.

KFORCE

2021

Financial

Statements

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,	**2021**	2020	2019(1)	2018	2017(2)
(In thousands, except per share amounts)					
Revenue	**$1,579,922**	$1,397,700	$1,347,387	$1,303,937	$1,253,646
Gross profit	**456,864**	396,224	395,038	386,487	375,597
Selling, general and administrative expenses	**345,721**	310,713	314,167	307,250	308,313
Depreciation and amortization	**4,500**	5,255	6,050	6,836	7,266
Other expense, net	**7,376**	5,044	3,425	4,521	5,100
Income from continuing operations, before income taxes	**99,267**	75,212	71,396	67,880	54,918
Income tax expense	**24,090**	19,173	16,830	17,004	25,324
Income from continuing operations	**75,177**	56,039	54,566	50,876	29,594
Income from discontinued operations, net of tax	**—**	—	76,296	7,104	3,691
Net income	**$ 75,177**	$ 56,039	$ 130,862	$ 57,980	$ 33,285
Earnings per share—basic, continuing operations	**$3.65**	$2.67	$2.35	$2.05	$1.17
Earnings per share—diluted, continuing operations	**$3.54**	$2.62	$2.29	$2.02	$1.16
Weighted average shares outstanding—basic	**20,579**	20,983	23,186	24,738	25,222
Weighted average shares outstanding—diluted	**21,212**	21,395	23,772	25,251	25,586
Dividends declared per share	**$0.98**	$0.80	$0.72	$0.60	$0.48

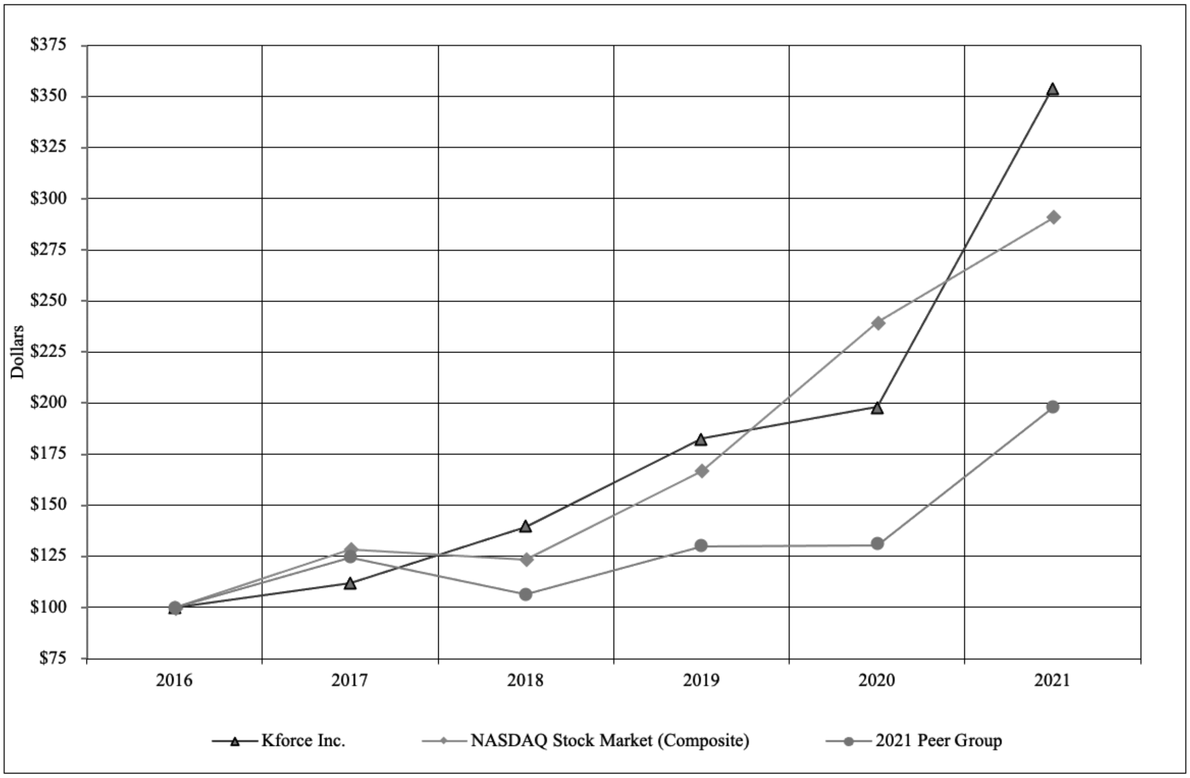
As of December 31,	**2021**	2020	2019	2018	2017
(In thousands)					
Cash and cash equivalents	**$ 96,989**	$ 103,486	$ 19,831	$ 112	$ 379
Working capital	**$ 211,680**	$ 230,726	$ 160,271	$ 158,104	$ 161,726
Total assets	**$ 503,401**	$ 479,049	$ 381,125	$ 379,908	$ 384,304
Total outstanding borrowings on credit facility	**$ 100,000**	$ 100,000	$ 65,000	$ 71,800	$ 116,523
Total long-term liabilities	**$ 154,564**	$ 190,948	$ 128,898	$ 121,219	$ 166,308
Stockholders' equity	**$ 188,406**	$ 179,935	$ 167,263	$ 168,331	$ 134,277

(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.

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, 2016 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	2016	2017	2018	2019	2020	2021
Kforce Inc.	$100.0	$111.8	$139.5	$182.7	$198.2	$354.3
NASDAQ Stock Market (Composite)	100.0	128.2	123.3	166.7	239.4	290.6
Peer Group (1)	100.0	124.6	106.5	130.1	130.6	197.6

(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 uses a peer group of companies as a source for executive compensation benchmarking data and comparisons to Kforce's executive compensation levels; insight into external compensation practices; and 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 and solutions companies active in recruiting and placing reasonably similar skill sets at similar types of clients, including companies we consider to be our direct business competitors. The specialty staffing and solutions 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 SIA in 2021, Kforce is one of the 10 largest publicly traded specialty staffing firms in the United States, so the size of our peer companies varies considerably. Therefore, the Committee selects other peers that are similar in terms of size (as measured by revenue and market capitalization), but may not be in the staffing industry. We attempt to match the median size of the peer group to Kforce by balancing a selection of both larger and smaller companies. 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, 2022, there were 149 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. In February 2022, the Board approved another increase in our stock repurchase authorization bringing the available authorization from $30.1 million 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. The following table presents information with respect to our repurchases of Kforce common stock during the three months ended December 31, 2021:

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, 2021 to October 31, 2021	29,817	$63.11	24,903	$38,467,169
November 1, 2021 to November 30, 2021	1,741	$78.24	—	$38,467,169
December 1, 2021 to December 31, 2021	257,842	$75.34	114,368	$30,094,476
Total	289,400	$74.10	139,271	$30,094,476

(1) Includes 4,914 shares of stock received upon vesting of restricted stock to satisfy tax withholding requirements for the period October 1, 2021 to October 31, 2021.
(2) Includes 1,741 shares of stock received upon vesting of restricted stock to satisfy tax withholding requirements for the period November 1, 2021 to November 30, 2021.
(3) Includes 143,474 shares of stock received upon vesting of restricted stock to satisfy tax withholding requirements for the period December 1, 2021 to December 31, 2021.

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, 2021, 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 31, 2021 would have had no effect on our annual interest expense because we had no variable debt at December 31, 2021.

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 was effective on May 31, 2017 and matures on April 29, 2022. Swap A has a fixed interest rate of 1.81%, which we add 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 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.

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 (which will remain throughout the remainder of the hedging arrangement), 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 Swap B have been designated as cash flow hedges and were effective as of December 31, 2021. The change in the fair value of the Swaps are recorded as a component of Accumulated other comprehensive income (loss) in the unaudited consolidated financial statements.

BUSINESS OVERVIEW

COMPANY OVERVIEW

Kforce Inc. and its subsidiaries (collectively, "Kforce") is a leading domestic provider of technology and finance and accounting talent solutions to innovative and industry-leading companies. While Kforce was incorporated in 1994 and completed its initial public offering (IPO) in August 1995, we have been providing domestic staffing services through our predecessor companies since 1962.

We have driven significant, strategic change at Kforce over the last decade including, but not limited to, streamlining the focus of our business on providing technology talent solutions. This strategic shift was bold and transformative but well-founded in our belief as we exited the 2008/2009 financial crisis that technology was going to be the epicenter of business strategies. Since the financial crisis, we successfully divested a number of businesses that we didn't believe aligned with our vision to become a technology-focused organization. Those divestitures included our clinical research business (sold in March 2012), our healthcare staffing business (sold in August 2014), the assets of a business based in Manila, Philippines (sold in September 2017), our federal government solutions business (sold in April 2019), and our federal government product business (sold in June 2019). Our Technology business now comprises nearly 85% of overall revenues with the remainder being our finance and accounting ("FA") business.

As a result of the COVID-19 pandemic, our workforce has been working remotely since March 2020. We recognized early on in the COVID-19 pandemic that there was very likely to be a permanent shift in the workplace and, thus, initiated what we refer to as our Kforce Reimagined initiative in May 2020. While we elaborate more on this initiative in the "Business Strategies" section below, we began looking critically at our physical office footprint, which was approximately 51 offices (50 leased, 1 owned) geographically dispersed across the U.S. and roughly 0.4 million square feet of space. Our future flexible work environment has allowed us to reduce our current footprint to 36 leased offices. In May 2021, we sold our 128,000 square foot corporate headquarters and signed a lease for our new corporate headquarters, comprising roughly 22,000 square feet, in September 2021. Once we have transitioned our remaining offices to align with our "Office Occasional" strategy, this is expected to reduce our overall square footage to be at least 60% to 70% lower than our pre-pandemic footprint. Our corporate headquarters is in Tampa, Florida.

Kforce serves clients across many industries and organizations of all sizes, but with a particular focus on serving Fortune 1000 and other large companies. Our 10 largest clients represented approximately 25% of revenue for the year ended December 31, 2021.

Except as specifically noted, our discussions in this report exclude any activity related to the federal government divestitures noted above (which comprised our 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.

Our Technology and FA businesses represent our two operating segments.

Our Technology Business

We provide talent solutions by comprehensively understanding our clients' requirements and matching their requirements with qualified candidates in highly skilled areas including, but not limited to, systems/applications architecture and development (mobility and/or web), data management and analytics, business and artificial intelligence, machine learning, project and program management, and network architecture and security.

One of our strategies over the last several years has been to invest in our managed teams and project solutions capabilities in order to provide a higher-value, differentiated offering to our clients. We believe Kforce has been successfully winning these more complex engagements due to the strong, long-standing partnerships we have built with our clients, our reputation for delivering quality services and our capability in identifying quality technology talent.

We provide our clients with qualified individuals ("consultants"), or teams of consultants on a temporary basis when the consultant's set of skills and experience is the right match for our clients. We refer to this as our Flex offering, which comprised roughly 98% of overall Technology revenues in 2021. We also identify qualified individuals ("candidates") for permanent placement with our clients. We refer to this as our Direct Hire offering, which comprised approximately 2% of overall revenue in 2021.

We provide services to clients in a variety of industries with a diversified footprint in, among others, financial and business services, communications, insurance, retail and technology. No single industry represents more than approximately 16% of overall Technology revenues. In addition, no single client comprised more than 5% of overall Firm revenues.

The September 2021 report published by Staffing Industry Analysts ("SIA") stated that temporary technology staffing is expected to experience growth of 11% and 6%, respectively, in 2021 and 2022. 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 is driving many companies to become 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 and solutions providers, such as Kforce, to meet their human capital needs.

We believe the performance of our Technology business in 2021 was exceptional and was organically record-setting for us as revenues improved 22.3% on a year-over-year basis to $1.27 billion and in the third and fourth quarters of 2021 exceeded 30% growth on a year-over-year basis. This strong performance follows 2020 where our Technology business was only down 1.2% year-over-year in an extraordinarily challenging macro-environment given the negative impacts of the COVID-19 pandemic. The average bill rate in 2021 was approximately $81 per hour, which increased 2.9%, as compared to 2020. In the fourth quarter of 2021, our average bill rate improved 3.8% year-over-year. Our average assignment duration is approximately 10 months, which has steadily increased over the last several years. We continue to benefit from an improving bill rate environment 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 maintain this capability on a centralized basis, which we believe allows us to operate consistently with a keen focus on ensuring compliance in this highly regulated space.

Our Flex and Direct Hire offerings improved 21.7% and 59.0%, respectively, on a year-over-year basis.

We are very pleased with our performance in our Technology business in 2021, which exceeded the SIA benchmark of growth by two times for 2021 and nearly three times in the second half of 2021. We believe our strategic position and momentum going into 2022 has positioned us well to continue delivering significantly above-market growth in 2022, in what we believe will be a continued strong demand environment for our services.

Our FA Business

The talent solutions we offer our clients in our FA business include consultants in traditional finance and accounting roles such as: financial, planning and analysis; business intelligence analysis; accounting; transactional accounting (e.g. payables, billing, cash applications, receivables); business and cost analysis; and taxation and treasury. We have also provided our clients with consultants in lower skilled areas such as: loan servicing and support; customer and call center support; data entry; and other administrative roles.

Over the last few years, we have been repositioning our FA business to focus on more highly skilled assignments that are less susceptible to technological change and automation and more closely aligned with our Technology business. We will continue to support certain clients by providing consultants in lower skilled roles where we have long-standing relationships and that are strategically important to our overall success. We believe we have made good progress in this transition as is evidenced by our overall average bill rate in FA, excluding the COVID-19 business (defined below), increasing approximately 10% in the fourth quarter of 2021 on a year-over-year basis.

We provide services to clients in a variety of industries with a diversified footprint in, among others, the financial services, business services, healthcare and manufacturing sectors. No single industry represents more than approximately 21% of overall FA revenues. In addition, no single client comprised more than 5% of overall Firm revenues. Revenue for our FA business decreased 11.4% to $306.0 million in 2021 on a year-over-year basis primarily due to a decrease in revenues from certain contracts we secured in the second quarter of 2020 to support government-sponsored COVID-19 related initiatives (the "COVID-19 Business"). These contracts contributed $71.0 million and $114.7 million in revenue in 2021 and 2020, respectively. Excluding the contribution of revenue from our COVID-19 Business, our FA business would have increased approximately 1% on a year-over-year basis. The average bill rate in FA in 2021, excluding the COVID-19 Business, was approximately $38 per hour, which increased 1.0% as compared to 2020. This increase is primarily a result of the mix of business towards more highly skilled assignments as a result of our repositioning efforts.

The September 2021 report published by SIA stated that finance and accounting temporary staffing is expected to experience growth of 16% and 7%, respectively, in 2021 and 2022.

Our Consultants

The vast majority of our consultants are directly employed by Kforce, including domestic and foreign workers sponsored by Kforce, with a smaller number being qualified independent contractors. As the employer of the vast majority of our consultants, 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. The more pertinent health, welfare and retirement benefits include comprehensive health insurance, workers' compensation benefits, and retirement plan options. A key ingredient to our overall success is to foster a positive experience for our consultants, which has a direct correlation to consultant retention and redeployment.

We measure the quality of our service to and support of our consultants using staffing industry benchmarks and net promoter score ("NPS") surveys conducted by a specialized, independent third-party provider. Our consultant and client NPS ratings are well above staffing industry averages and have reached World-Class level as defined by the independent third-party provider. Additionally, we continually seek direct feedback from our consultants, which helps us identify opportunities to refine our services.

In a recent study conducted by SIA, Kforce was ranked as the #1 most recognized brand by information technology consultants.

INDUSTRY OVERVIEW

We operate in a highly competitive environment. Within the professional staffing industry, it 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 2021 indicated that, in the United States, Kforce is one of the largest publicly-traded specialty staffing firms, the sixth largest technology temporary staffing firm and the third 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. In December 2021, the penetration rate (the percentage of temporary staffing to total employment) remained flat at 1.9% compared to 2020, while the unemployment rate, at 3.9%, was down from 6.7% in December 2020.

In addition, the college-level unemployment rate, which we believe serves as a better proxy for professional employment and therefore aligns well with the consultant and candidate population that Kforce most typically serves, was 2.1% in December 2021, which represented a substantial decrease from December 2020. 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 2021 SIA report, the technology temporary staffing industry and finance and accounting temporary staffing industry are expected to generate projected revenues of $35.9 billion and $9.0 billion, respectively, in 2022. 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. We believe that the organic investments that we have made in our managed teams and project solutions capabilities over the last several years have expanded Kforce's total addressable market. Published reports indicate that the addressable market in the technology solutions space is well in excess of $100 billion.

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 Teams and Project 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. We believe that the total addressable market in the higher-end IT services and solutions market is significantly larger than the traditional technology staff augmentation market. We believe that the use of firms such as Kforce, which can provide cost effective access to highly skilled talent to manage a team of consultants or oversee technology projects, 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, for a large national property and casualty insurance provider, we built a unified customer experience, for both policy holders and agents, across all digital distribution and service channels. The outcome was to simultaneously increase customer acquisition and share of wallet, while driving renewal and retention rates in the current book of business. Our efforts resulted in both the desired outcome and the Company winning the J.D. Powers award. Another example involves one of the nation's largest retail-grocers with over 2,000 stores and 325,000 employees. We are providing strategic, digital and technology transformation services to support the streamlining of their full supply chain model with initial focus on supply chain analysis, data governance and mobile application development.

Further Improve the Quality of our Revenue Stream. In addition to the significant progress we have made in evolving our managed teams and project solutions offerings, 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 that are less susceptible to technological disruption. 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 2022 and beyond unless there is a strategic client relationship or other strategic rationale.

Reimagining a More Flexible Work Environment. The results of multiple employee surveys conducted over the last 18 to almost 24 months indicate that our associates have embraced the ingenuity required to work remotely and have been successful in settling into new, productive routines. We continue to make substantial progress in our "Kforce Reimagined" initiative, which is an effort to position Kforce to provide a more flexible hybrid work environment for our associates that was initiated shortly after the onset of the COVID-19 pandemic. We are referring to this new era of Kforce's work environment as "Office Occasional." In this new era, our employees will have maximum flexibility and choice in designing their workdays. This approach is rooted in trust and is supported by integrated technology aligned with our evolved operating model. We will have a remote-first approach but encourage our employees to leverage physical office space, when desirable, for activities that are most efficiently done through in-person, active collaboration.

In support of this strategic shift, following the sale of our corporate headquarters campus in May 2021, we signed a long-term lease for our future corporate headquarters in September 2021, which we anticipate occupying in the fourth quarter of 2022. The design of our new space will be modern, open and technology-enabled and will provide a flexible environment for our employees to work effectively, very similar to how we are approaching the design of our field offices.

We expect that the culmination of these efforts will position Kforce as a destination for top talent during a time where there is great disruption in the labor markets.

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 2021, we completed the rollout of the initial capabilities within our new talent relationship management (TRM) system, which we expect will better facilitate our delivery strategies and processes and significantly improve our capabilities. Going forward, we expect to continue to make enhancements to our business and data intelligence capabilities. These investments are part of a multi-year effort to significantly upgrade our technology tools, using cloud-based platforms, 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 access to the appropriate training and tools to lead their teams effectively. During 2021, we continued investing in an intensive leadership development curriculum. These activities will be ongoing and, we believe, will lead to enhanced leadership capabilities and, thus, higher retention levels of our associates.

During 2021, we engaged an independent third-party consulting firm to assist us in our assessment of our middle and back office capabilities. The results of the assessment work confirmed our belief that we have a tremendous opportunity to fundamentally transform how our back office supports the Firm. We will continue to make investments in this multi-year transformation effort in 2022.

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 among 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 2021, 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 among the highest in the industry. 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 and solutions firms. The local firms are typically operator-owned, and each market generally has one or more significant competitors. Within our managed teams and project solutions offerings, we also face competition from global, 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 that 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 our 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, ability of consultants to work on assignments with innovative and leading companies, 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 and solutions 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.

Because we operate in a complex regulatory environment, one of our top priorities is compliance. For more discussion of the potential impact that the regulatory environment could have on Kforce's financial results, refer to Item 1A. Risk Factors of the Kforce 10-K.

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 AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

Core Values

At the heart of Kforce, as an organization, is a deep understanding of and unwavering commitment to our core values. As we drive toward one shared vision, we refreshed our core values during 2021, to embody our unique perspectives, our dedication to doing what's right and creating positive social change. Our Core Values are:

- INTEGRITY: Act with intention. Keep promises. Take responsibility.
- EXCELLENCE: Embrace competition. Succeed together. Go for the win.
- COMPASSION: Respect others. Nurture relationships. Spread kindness.
- UNITY: Encourage collaboration. Support each other. Pursue a shared vision.
- ADAPTABILITY: Champion innovation. Stay curious. Consider the uncommon.
- COURAGE: Dare to fail. Speak openly. Dream big.
- FUN: Be yourself. Laugh often. Enjoy the journey.

Commitment to Values and Ethics through Governance

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. Our associates receive training on our Code of Conduct and must acknowledge their understanding and certify compliance annually. 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). Our executive officers and leaders maintain "open door" policies and any form of retaliation is strictly prohibited. We take all reports of suspected violations and unethical behavior seriously and take appropriate actions to immediately address such situations.

Employees and Personnel

As of December 31, 2021, 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 11,000 consultants on assignment with our clients with more than 80% of these consultants employed directly by Kforce. 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 provided to employees and consultants employed directly by us include: comprehensive health insurance, workers' compensation benefits and retirement plan options. Additionally for our associates and certain consultants, we provide paid leave. 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 Well-Being

The success of our business is fundamentally connected to the well-being of our employees and consultants. Accordingly, we are committed to their health, safety and wellness. We provide our employees and consultants and their families with access to a variety of flexible and convenient health and wellness programs. Some of these programs are part of our thoughtful and comprehensive response to the COVID-19 pandemic as well as those that support the physical and mental health of our employees by providing tools and resources that each employee can use to improve or maintain their health. The measures that we have undertaken include: requiring our associates to work remotely since March 2020; maintaining regular communications from our executives regarding impacts of the COVID-19 pandemic; 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.

We believe that our future "Office Occasional" work environment has provided our associates maximum flexibility and choice in designing their workdays; thus, additionally contributing to their health and well-being. Consistent with our management philosophy at Kforce, this was anything but a top-down initiative. Rather, this was driven by our associates and has proven to be successful because we empowered our team with a strong voice by conducting continuous pulse checks, surveys, town hall sessions and other collaborative voice of the associate avenues. Our future work environment is rooted in trust and is supported by integrated technology aligned with our evolved operating model.

Talent Management and Leadership Development

Wherever possible, we strive to identify, train and develop talent from within to help ensure that we maintain a consistent operating model, proactive planning, and employee engagement. A core objective is to sustain our current leadership development activities through further advanced training and comprehensive certification for new leaders. Given our goal is to be a destination employer for top talent, we are also focused on efficiently onboarding new associates into our Firm. We are leaning heavily into remote leadership tools and techniques as well as concepts centered on making lasting connections based on trust, compassion and empathy. This approach has yielded an understanding that the Kforce culture and leaders will put safety, wellness and family first.

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 all leadership categories in the Firm;
- Engagement with an independent organizational psychologist to facilitate 360 degree assessments for our executive leadership team;
- Several multi-day leadership conferences supported by Kforce leaders and supplemented by online tools and resource libraries; and
- Inclusive leadership 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 in assigning appraisal ratings;
- Comprehensive internal talent pipeline (performance/potential) to assess opportunities for our talent across the Firm and for succession planning purposes; and
- Goal setting and development discussions using a consistent template to ensure our leaders and associates are aligned on career and development goals, as well as opportunities for growth and improvement.

Kforce has continued to conduct check-in surveys during the pandemic to monitor wellness and enablement of our associate population. To take that even further, we will be investing more comprehensively into the full employee experience as our office occasional work environment continues to take shape. We have purchased software to run employee lifecycle surveying throughout the Kforce employee experience. A key objective will be to use employee data and sentiment to proactively address engagement indicators.

Upcoming activities include, but are not limited to:

- Full-scale employee engagement dashboard;
- Automated exit surveys;
- Lifecycle (stay) interviews;
- Employee engagement surveys; and
- Pulse surveying, as needed.

Information gathered from these upcoming activities will be useful to Kforce management, and to the extent relevant to our Board of Directors' oversight responsibilities, in developing future goals and objectives pertaining to our talent management strategies.

Diversity, Equity and Inclusion Program

Kforce's diversity, equity and inclusion ("DE&I") program has the mission of leveraging our core values and culture in further promoting an authentic culture of diversity, equity and inclusion at Kforce.

In 2021, Kforce advanced its objectives around building an increasingly robust pipeline of diverse candidates, enhancing our supplier diversity practices, and instituting training programs to meet the mission and objectives of our DE&I program. An objective in 2022 is to launch internal "listening sessions," which will be completed by an external expert to collect and analyze details on associates' sentiment regarding inclusion and belonging. Information gathered during this process will greatly influence our programming decisions moving forward.

Our other DE&I activities also include, but are not limited to, the following:

- Reviewing third-party analysis of internal demographics, progression and pay-equity practices and studies;
- The creation of an internal DE&I Council;
- Initiating a program to improve pipeline by leveraging geo-base tracking, digital canvasing, job board aggregators and niche partnerships with diverse organizations;
- Publishing an internal DE&I Resource Center (Website);
- Consistently conducting ongoing cultural celebrations; and
- Execution of an ongoing DE&I learning journey for our associates that includes programs such as emotional intelligence and unconscious bias modules.

Our commitment to DE&I goes beyond our partnerships and our Firm. From speaking engagements to career fairs to the charities we support, we actively participate in communities nationwide with a goal of doing our part in building a better tomorrow for the workforce today.

Environmental

As a domestic talent solutions provider, Kforce does not produce or manufacture any products or materials and therefore our direct impact on the environment is relatively small. In addition, we are in the early stages of considering what risks and opportunities climate change may present to our business more broadly.

Notwithstanding our relatively nominal direct environmental impact, we are dedicated to promoting internal operational sustainability initiatives and keeping our ecological footprint to a minimum. As such, we were able to take advantage of more impactful opportunities using actions implemented during the COVID-19 pandemic. Since March 2020, all of our employees have been working remotely. In addition, the "office occasional" work environment that we have defined for Kforce requires significantly less square footage and less commuting than our pre-pandemic work environment, resulting in a reduced carbon footprint. As noted previously, we have already reduced the number of physical offices from 51 (leased and owned) pre-pandemic to 36 leased offices currently. The reduction in the number of our offices and migration of our offices to our office occasional environment is expected to reduce our overall square footage to be at least 60% to 70% lower than pre-pandemic levels. These actions, which we expect to continue even after the pandemic has subsided, have dramatically reduced the environmental impact of employees' commutes and the consumption of energy; thereby, decreasing our carbon footprint. We have also been able to reduce certain business travel by using virtual and collaborative tools whenever possible, further limiting our ecological impact. Kforce is committed to enhancing its environmental protection measures and continuing to promote an eco-friendly culture both internally and in the communities it serves.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 2021, 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, 2021, increased 13.9%, per billing day, to $1.58 billion in 2021 from $1.40 billion in 2020. Revenue per billing day increased 22.3% in our Technology business and decreased 11.4% in our FA business.
- Flex revenue increased 13.1%, per billing day, to $1.53 billion in 2021 from $1.36 billion in 2020. Flex revenue increased 21.7%, per billing day, for Technology and decreased 14.0%, per billing day, for FA. During 2020, we secured contracts to support government-sponsored COVID-19 related initiatives that benefited our FA business with $71.0 million and $114.7 million in revenues for the years ended December 31, 2021 and 2020, respectively. Excluding revenues from the COVID-19 Business for both periods, our FA Flex business would have declined 1.5% in 2021 on a year-over-year, billing day basis.
- The momentum in our Technology business built as 2021 progressed with solid sequential growth each quarter in 2021, resulting in 32.0% growth in the fourth quarter of 2021 on a year-over-year billing day basis.
- Direct Hire revenue, per billing day, increased 49.3% to $49.8 million in 2021 from $33.6 million in 2020.
- Gross profit margin increased 60 basis points to 28.9% in 2021 due primarily to an increased mix of Direct Hire revenue. Flex gross profit margin was flat at 26.6% for both 2021 and 2020. Flex gross profit margin was flat for Technology and increased 30 basis points for FA.
- SG&A expenses as a percentage of revenue for the year ended December 31, 2021, decreased to 21.9% from 22.2% in 2020. The decrease is primarily related to leverage gained from our revenue growth, associate productivity improvements, lower real estate spend due to our reduced office footprint, a decline in our credit expense and a gain on the sale of our corporate headquarters.
- Net income for the year ended December 31, 2021, increased 34.2% to $75.2 million, or $3.54 per share, from $56.0 million, or $2.62 per share, in 2020.
- The Firm returned $74.5 million of capital to our shareholders in the form of open market repurchases totaling $54.4 million, or 0.9 million shares, and quarterly dividends totaling $20.1 million during the year ended December 31, 2021.
- We ended the year with $3.0 million of net debt as of December 31, 2021, compared to net cash of approximately $3.5 million as of December 31, 2020, given that we returned approximately 100% of our operating cash flows to our shareholders.
- Cash provided by operating activities was $72.9 million during the year ended December 31, 2021, compared to $109.2 million for 2020. This decrease is primarily due to the deferral of $38.6 million in payroll taxes as a result of the Coronavirus, Aid, Relief and Economic Security Act (the "CARES Act") in 2020, of which $19.3 million was paid in 2021.

RESULTS OF OPERATIONS

Certain discussions of the changes in our results of operations from the year ended December 31, 2020, as compared to the year ended December 31, 2019, 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, 2020, filed with the SEC on February 26, 2021.

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 these sectors of the U.S. economy although our top three industries are financial services, business services and telecommunications, which were not 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 delivered strong results in 2020 and again in 2021, especially in our Technology business, with a year-over-year decline of only approximately 1% in 2020 and solid growth of approximately 22% in 2021, both of which significantly exceeded the market expectation per SIA. As we expected, we were successful in significantly outpacing the decline in revenues from our COVID-19 Business (declined $43.7 million) with a higher-quality Technology revenue stream (up $224.3 million). While the business climate related to the COVID-19 economic and health crisis, along with related governmental legislation (including that which is aimed at stimulating the economy), is still extremely fluid, we are well-positioned to and expect to continue capturing additional market share in our Technology business and delivering strong operating results to our shareholders in 2022.

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,	**2021**	2020	2019
Revenue by segment:			
Technology	**80.6%**	75.1%	78.5%
FA	**19.4**	24.9	21.5
Total Revenue	**100.0%**	100.0%	100.0%
Revenue by type:			
Flex	**96.9%**	97.6%	96.5%
Direct Hire	**3.1**	2.4	3.5
Total Revenue	**100.0%**	100.0%	100.0%
Gross profit	**28.9%**	28.3%	29.3%
Selling, general and administrative expenses	**21.9%**	22.2%	23.3%
Depreciation and amortization	**0.3%**	0.4%	0.4%
Income from operations	**6.7%**	5.7%	5.6%
Income from continuing operations, before income taxes	**6.3%**	5.4%	5.3%
Income from continuing operations	**4.8%**	4.0%	4.0%
Income from discontinued operations, net of tax	**— %**	—%	5.7%
Net income	**4.8%**	4.0%	9.7%

***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):

	2021	**Increase (Decrease)**	2020	Increase (Decrease)	2019
Technology					
Flex revenue	**$1,247,560**	**20.8%**	$1,032,901	(0.4)%	$1,037,380
Direct Hire revenue	**26,381**	**57.7%**	16,727	(18.3)%	20,479
Total Technology revenue	**$1,273,941**	**21.4%**	$1,049,628	(0.8)%	$1,057,859
FA					
Flex revenue	**$ 282,597**	**(14.7)%**	$ 331,196	26.3%	$ 262,307
Direct Hire revenue	**23,384**	**38.6%**	16,876	(38.0)%	27,221
Total FA revenue	**$ 305,981**	**(12.1)%**	$ 348,072	20.2%	$ 289,528
Total Flex revenue	**$1,530,157**	**12.2%**	$1,364,097	5.0%	$1,299,687
Total Direct Hire revenue	**49,765**	**48.1%**	33,603	(29.6)%	47,700
Total Revenue	**$1,579,922**	**13.0%**	$1,397,700	3.7%	$1,347,387

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, per billing day, for the last five quarters:

	Year-Over-Year Revenue Growth Rates (Per Billing Day)				
	Q4 2021	**Q3 2021**	**Q2 2021**	**Q1 2021**	Q4 2020
Billing days	**61**	**64**	**64**	**63**	62
Technology Flex	**31.0%**	**28.9%**	**20.9%**	**6.3%**	0.8%
FA Flex	**(28.9)%**	**(41.3)%**	**2.7%**	**26.4%**	26.0%
Total Flex	**16.6%**	**9.1%**	**16.3%**	**10.2%**	5.9%

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 Technology business increased approximately 22%, per billing day, during the year ended December 31, 2021, as compared to the same period in 2020. The increase was driven principally by a higher number of consultants on assignment, which have improved consistently since June 2020 (our lowest point during the COVID-19 pandemic). This growth in consultants on assignment was primarily due to the strong secular drivers of demand, the strength of our client portfolio (that being comprised of primarily Fortune 1000 companies), our concentration in higher-end technology skills, and solid execution. We believe the secular drivers of demand in technology have only strengthened post-pandemic as companies continue to invest significantly in technology to improve their consumer's experience, gain cost efficiencies and stay relevant in an increasingly competitive environment. Assuming a stable demand and macro environment, we expect growth in our Technology business in 2022 of at least 15%.

Our FA business experienced a decrease in Flex revenue, per billing day of 14.0% during the year ended December 31, 2021, as compared to the same period in 2020, primarily driven by a $43.7 million decrease in the COVID-19 Business. Excluding this decline, FA Flex revenues declined 1.5% in 2021, per billing day, as a result of a strategic decision to focus our FA business towards more highly-skilled roles. Excluding the negative impact of the elimination of COVID-19 Business and runoff of FA business in lower skilled areas, we expect Flex revenue in our FA business to grow in the low to mid-single digit range in 2022.

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,	**2021 vs. 2020**		2020 vs. 2019	
	Technology	**FA**	Technology	FA
Key Drivers—Increase (Decrease)				
Volume—hours billed	**$177,865**	**$(63,558)**	$(41,950)	$ 91,662
Bill rate	**35,242**	**15,167**	42,088	(22,396)
Billable expenses	**1,552**	**(208)**	(4,617)	(377)
Total change in Flex revenue	**$214,659**	**$(48,599)**	$ (4,479)	$ 68,889

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

	2021	**Increase (Decrease)**	2020	Increase (Decrease)	2019
Technology	**15,329**	**17.3%**	13,070	(4.1)%	13,625
FA	**7,768**	**(19.2)%**	9,615	35.0%	7,120
Total Flex hours billed	**23,097**	**1.8%**	22,685	9.4%	20,745

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 increased 49.3%, per billing day, during the year ended December 31, 2021, as compared to the same period in 2020, primarily driven by a significant increase in both the number of placements and fees, as the economic environment has strengthened and competition for talent has increased. We expect Direct Hire revenues to grow in 2022 in the mid to high single-digit range in 2022.

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

Year Ended December 31,	**2021 vs. 2020**		2020 vs. 2019	
	Technology	**FA**	Technology	FA
Key Drivers—Increase (Decrease)				
Volume—number of placements	**$6,764**	**$4,537**	$(4,331)	$(10,636)
Placement fee	**2,890**	**1,971**	597	291
Total change in Direct Hire revenue	**$9,654**	**$6,508**	$(3,752)	$(10,345)

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

	2021	**Increase (Decrease)**	2020	Increase (Decrease)	2019
Technology	**1,219**	**40.4%**	868	(21.2)%	1,101
FA	**1,492**	**26.9%**	1,176	(39.1)%	1,930
Total number of placements	**2,711**	**32.6%**	2,044	(32.6)%	3,031

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

	2021	**Increase Decrease)**	2020	Increase (Decrease)	2019
Technology	**$21,642**	**12.3%**	$19,271	3.6%	$18,604
FA	**$15,671**	**9.2%**	$14,351	1.8%	$14,103
Total average placement fee	**$18,356**	**11.7%**	$16,440	4.5%	$15,738

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:

	2021	**Increase (Decrease)**	2020	Increase (Decrease)	2019
Technology	**27.9%**	**1.1%**	27.6%	(0.4)%	27.7%
FA	**33.0%**	**7.8%**	30.6%	(13.1)%	35.2%
Total gross profit percentage	**28.9%**	**2.1%**	28.3%	(3.4)%	29.3%

Total gross profit percentage increased 60 basis points for the year ended December 31, 2021, as compared to the same period in 2020, primarily driven by an increased 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:

	2021	**Increase (Decrease)**	2020	Increase (Decrease)	2019
Technology	**26.4%**	**—%**	26.4%	0.4%	26.3%
FA	**27.4%**	**1.1%**	27.1%	(4.9)%	28.5%
Total Flex gross profit percentage	**26.6%**	**—%**	26.6%	(0.4)%	26.7%

Overall, our Flex gross profit percentage for the year ended December 31, 2021, as compared to the same period in 2020, was flat. We have seen good stability in our Technology Flex gross margins over the last several years as the benefit from higher growth in our managed teams and project solutions business, which carries a higher margin profile, has offset any spread compression in the remainder of our Technology business.

FA Flex gross profit margins increased 30 basis points for the year ended December 31, 2021, as compared to the same period in 2020, primarily due to a lower mix of lower margin COVID-19 Business and spread improvements due to the repositioning of this business in higher skilled areas. These benefits more than offset higher healthcare costs.

We expect spreads to be relatively stable in our Technology business and for spreads in our FA business to benefit further from the elimination of revenues from the COVID-19 Business and the repositioning efforts in 2022.

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,	**2021 vs. 2020**		2020 vs. 2019	
	Technology	**FA**	Technology	FA
Key Drivers—Increase (Decrease)				
Revenue impact	**$56,734**	**$(13,152)**	$(1,177)	$19,655
Profitability impact	**(137)**	**1,033**	1,669	(4,864)
Total change in Flex gross profit	**$56,597**	**$(12,119)**	$ 492	$14,791

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 85.4%, 83.0% and 83.1% of SG&A for the years ended December 31, 2021, 2020 and 2019, 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.

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

	2021	**% of Revenue**	2020	% of Revenue	2019	% of Revenue
Compensation, commissions, payroll taxes and benefits costs	**$295,187**	**18.7%**	$257,802	18.4%	$261,185	19.4%
Other[1]	**50,534**	**3.2%**	52,911	3.8%	52,982	3.9%
Total SG&A	**$345,721**	**21.9%**	$310,713	22.2%	$314,167	23.3%

(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 30 basis points in 2021, as compared to 2020 due to (a) leverage gained from our revenue growth, (b) the recognition of a $2.0 million gain from the sale of our corporate headquarters in 2021, (c) declines in credit expense in 2021 due to a lower estimated risk of default resulting from the strength in the quality of our accounts receivable portfolio, and (d) reductions in lease and office expenses. These benefits were partially offset by higher performance-based compensation given the strength in our 2021 financial performance and the accrual of a tentative legal settlement of $3.3 million.

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):

	2021	**Increase (Decrease)**	2020	Increase (Decrease)	2019
Fixed asset depreciation (includes finance leases)	**$2,822**	**(30.7)%**	$4,073	(17.4)%	$4,929
Capitalized software amortization	**1,678**	**42.0%**	1,182	5.4%	1,121
Total Depreciation and amortization	**$4,500**	**(14.4)%**	$5,255	(13.1)%	$6,050

The decrease in depreciation primarily results from the completion of the sale of our corporate headquarters in May 2021.

Other Expense, Net. Other expense, net was $7.4 million in 2021, $5.0 million in 2020 and $3.4 million in 2019. Other expense, net consists primarily of (a) our proportionate share of the loss from WorkLLama, LLC (WorkLLama), (b) an expense related to the termination of our SERP in 2021 and (c) interest expense related to outstanding borrowings under our credit facility.

During the years ended December 31, 2021 and 2020, we recognized $2.5 million and $1.7 million, respectively, related to our share of losses from WorkLLama and an expense of $1.8 million in 2021 related to the termination of our SERP. 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 termination of our SERP.

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, 2021, 2020 and 2019 were 24.3%, 25.5% and 23.6%, respectively.

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 does 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, 2020.

The effective tax rates for discontinued operations, including the gain on sale of discontinued operations, for the year ended December 31, 2019, was 4.4%. There was no activity relating to discontinued operations in 2021 or 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..

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, repurchasing common stock, paying dividends or making acquisitions. 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, but not as a replacement for, our Consolidated Statements of Cash Flows. Free cash flows include results from discontinued operations for the year ended December 31, 2019.

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

Years Ended December 31,	**2021**	2020	2019
Net income	**$ 75,177**	$ 56,039	$ 130,862
Non-cash provisions and other	**30,188**	27,582	(51,650)
Changes in operating assets/liabilities	**(32,467)**	25,538	(12,595)
Net cash provided by operating activities	**72,898**	109,159	66,617
Capital expenditures	**(6,441)**	(6,475)	(10,359)
Free cash flow	**66,457**	102,684	56,258
Equity method investment	**(9,000)**	(4,000)	(9,000)
Change in debt	**—**	35,000	(6,800)
Repurchases of common stock	**(66,210)**	(35,613)	(124,453)
Cash dividends	**(20,120)**	(16,787)	(16,608)
Net proceeds from the sale of assets held for sale	**23,742**	3,548	122,544
Other	**(1,366)**	(1,177)	(2,222)
Change in cash and cash equivalents	**$ (6,497)**	$ 83,655	$ 19,719

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, gain on sale of corporate headquarters, stock-based compensation expense, interest expense, net, income tax expense, legal settlement expense, SERP termination 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,	**2021**	2020	2019
Net income	**$ 75,177**	$56,039	$130,862
Income from discontinued operations, net of tax	**—**	—	76,296
Income from continuing operations	**75,177**	56,039	54,566
Depreciation and amortization	**4,500**	5,255	6,050
Gain on sale of corporate headquarters	**(2,051)**	—	—
Stock-based compensation expense	**13,999**	11,595	9,825
Interest expense, net	**3,073**	3,396	2,586
Income tax expense	**24,090**	19,173	16,830
Legal settlement expense	**3,350**	—	—
SERP termination expense	**1,821**	—	—
Loss from equity method investment	**2,480**	1,681	831
Adjusted EBITDA	**$126,439**	$ 97,139	$ 90,688

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, 2021 and 2020, we had $97.0 million and $103.5 million, respectively, in cash and cash equivalents, which consisted primarily of government money market funds. At December 31, 2021, Kforce had $211.7 million in working capital compared to $230.7 million at December 31, 2020.

Cash Flows

Our business has historically generated a significant amount of operating cash flows, which allows us 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,	**2021**	2020	2019
Cash Provided by (Used in)			
Operating activities	**$ 72,898**	$109,159	$ 66,617
Investing activities	**8,301**	(6,927)	103,185
Financing activities	**(87,696)**	(18,577)	(150,083)
Change in cash and cash equivalents	**$ (6,497)**	$ 83,655	$ 19,719

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 a discontinued operation for 2019.

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

Years Ended December 31,	**2021**	2020	2019
Cash Provided by			
GS Operating Activities	**$ —**	$ —	$ 4,547
GS Investing Activities	**$ —**	$ —	$117,798

Operating Activities

Cash provided by operating activities was $72.9 million during the year ended December 31, 2021, as compared to $109.2 million during the year ended December 31, 2020. 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 decrease was primarily driven by growth in our accounts receivable portfolio and the $19.0 million payment of payroll taxes in 2021 out of the $39 million that was deferred in 2020 related to the CARES ACT. This decline was partially offset by profitable revenue growth.

Investing Activities

Cash provided by investing activities was $8.3 million during the year ended December 31, 2021, as compared to cash used in investing activities of $6.9 million during the year ended December 31, 2020. The aggregate year-over-year change of $15.2 million is due to $23.7 million in net proceeds from the sale of our corporate headquarters, which was partially offset by the receipt of proceeds from the sale of assets held within the Rabbi Trust of $3.5 million in 2020 and a $5 million increase in capital contributed to WorkLLama. We expect to continue selectively investing in our infrastructure, primarily focusing on implementing new and upgrading existing technologies that will provide the most benefit.

Financing Activities

Cash used in financing activities was $87.7 million during the year ended December 31, 2021, as compared to $18.6 million during the year ended December 31, 2020. The change was primarily driven by the $35.0 million draw down on our credit facility during the year ended December 31, 2020, and an increase in the repurchases of common stock and quarterly dividends during the year ended December 31, 2021 compared to 2020.

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

	2021	2020	2019
Open market repurchases	**$54,265**	$ 29,386	$ 118,324
Repurchase of shares related to tax withholding requirements for vesting of restricted stock	**11,945**	6,227	6,129
Total cash flow impact of common stock repurchases	**$66,210**	$35,613	$124,453
Cash paid in current year for settlement of prior year repurchases	**$ —**	$ —	$ 556

During the years ended December 31, 2021, 2020 and 2019, Kforce declared and paid dividends of $20.1 million ($0.98 per share), $16.8 million ($0.80 per share) and $16.6 million ($0.72 per share), respectively.

On February 4, 2022, Kforce's Board approved a 15% increase to the Company's quarterly dividend from $0.26 per share to $0.30 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 October 20, 2021, the Firm entered into an amended and restated 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, BMO Harris Bank, N.A., as documentation agent, and the lenders referred to therein (the "Amended and Restated Credit Facility"). Under the Amended and Restated Credit Facility, the Firm has a maximum borrowing capacity of $200.0 million, which may, subject to certain conditions and the participation of the lenders, be increased up to an aggregate additional amount of $150.0 million. The maturity date of the Amended and Restated Credit Facility is October 20, 2026. 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, 2021, $100.0 million was outstanding and $98.7 million, subject to certain covenants, was available.

In April 2017 and March 2020, 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, 2021 and 2020, the fair value of the Swaps was an asset of $0.8 million and liability of $1.8 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):

	2021		2020	
	Shares	**$**	Shares	$
Open market repurchases	**922**	**$54,446**	1,020	$29,386

As of December 31, 2021, $30.1 million remained available for further repurchases under the Board-authorized common stock repurchase program. On February 4, 2022, the Board approved an increase in our stock repurchase authorization, bringing the total authorization to $100.0 million.

Contractual Obligations

In addition to our discussion and analysis surrounding our liquidity and capital resources, consideration should also be given to significant contractual obligations:

- Our credit facility matures October 20, 2026 and, as of December 31, 2021, our outstanding debt balance was $100.0 million. Our interest rate as of December 31, 2021 was used to forecast the expected future interest rate payments. These payments, which are estimated to be $4.9 million, are inherently uncertain due to fluctuations in interest rates and outstanding borrowings that will occur over the remaining term of the credit facility. See Note 14, "Credit Facility" within our consolidated financial statements for further detail of our debt.
- We maintain 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. As of December 31, 2021, the value of our obligation under these plans was $42.6 million. 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.
- Our purchase obligations consist of agreements to purchase goods and services entered into in the ordinary course of business. As of December 31, 2021, the value of our non-cancellable unconditional purchase obligations was $19.0 million.
- We have 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. At December 31, 2021, our liability would be approximately $36.9 million for terminations related to a change in control and $13.0 million related to terminations in the absence of good cause. See Note 18 '" Commitments and Contingencies" of our Notes to Consolidated Financial Statements for additional information regarding our commitments related to employment agreements.
- We lease certain facilities and other properties under non-cancellable operating lease arrangements that expire at various dates through 2033. As of December 31, 2021, the value of our obligations under operating leases was $19.4 million. See Note 12, "Leases," within our consolidated financial statements for further detail of our obligations and the timing of expected future payments, including a five-year maturity schedule.
- In September 2021, we entered into a lease agreement for office space in Tampa, Florida, which will become our new corporate headquarters. The new lease has not yet commenced, but will require aggregate future lease payments of approximately $10.9 million over the entire lease term, which includes annual upward adjustments, and has a non-cancellable lease term of 129 months, excluding renewal options. The new lease also provides for a tenant-improvement allowance from the landlord, of $1.6 million to be used towards costs to design, engineer, install, supply and to construct improvements. See Note 12, "Leases," within our consolidated financial statements for further detail of our obligations and the timing of expected future payments.

Off-Balance Sheet Arrangements

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2021, Kforce had letters of credit outstanding for operating lease and insurance coverage deposits totaling $1.3 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.

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.

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 as an equity method 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 the fair value of the 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 WorkLLama. 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 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. 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.

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, 2021, would have impacted our net income by approximately $0.2 million in 2021.

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 $0.5 million in 2021.

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, 2021.

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, 2021, would have impacted our net income by approximately $0.5 million in 2021.

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, 2021. 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, 2021, 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, 2021 and 2020, 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, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, 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 the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company'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 the Company'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 the Company 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 $17.0 million was included in Other assets, net in the Consolidated Balance Sheet at December 31, 2021.

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 to estimate the fair value of WorkLLama. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions regarding cash flow projections, including the need to involve fair value specialists, when performing audit procedures to evaluate assumptions related to the selection of the weighted-average cost of capital.

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 management's review of forecasts of future revenue and management's review of their specialist's fair value analysis.
- 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) peer companies as well as 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 weighted-average cost of capital, 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 weighted-average cost of capital, 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 weighted-average cost of capital and the forecasts to understand and sensitize management's assumptions regarding risk inherent in the forecast.

Deloitte & Touche LLP

Tampa, Florida
February 25, 2022

We have served as the Company's auditor since 2000.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

Years Ended December 31,	**2021**	2020	2019
Revenue	**$1,579,922**	$1,397,700	$1,347,387
Direct costs	**1,123,058**	1,001,476	952,349
Gross profit	**456,864**	396,224	395,038
Selling, general and administrative expenses	**345,721**	310,713	314,167
Depreciation and amortization	**4,500**	5,255	6,050
Income from operations	**106,643**	80,256	74,821
Other expense, net	**7,376**	5,044	3,425
Income from continuing operations, before income taxes	**99,267**	75,212	71,396
Income tax expense	**24,090**	19,173	16,830
Income from continuing operations	**75,177**	56,039	54,566
Income from discontinued operations, net of tax	**—**	—	76,296
Net income	**75,177**	56,039	130,862
Other comprehensive (loss) income:			
Defined benefit pension plans, net of tax	**3,103**	(1,706)	(2,183)
Change in fair value of interest rate swap, net of tax	**1,941**	(1,191)	(807)
Comprehensive income	**$ 80,221**	$ 53,142	$ 127,872
Earnings per share — basic:			
Continuing operations	**$3.65**	$2.67	$2.35
Discontinued operations	**—**	—	3.29
Earnings per share — basic	**$3.65**	$2.67	$5.64
Earnings per share — diluted:			
Continuing operations	**$3.54**	$2.62	$2.29
Discontinued operations	**—**	—	3.21
Earnings per share — diluted	**$3.54**	$2.62	$5.50
Weighted average shares outstanding — basic	**20,579**	20,983	23,186
Weighted average shares outstanding — diluted	**21,212**	21,395	23,772

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

CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31,	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 96,989**	$ 103,486
Trade receivables, net of allowances of $2,342 and $3,204, respectively	**265,322**	228,373
Income tax refund receivable	**3,010**	44
Prepaid expenses and other current assets	**6,790**	6,989
Total current assets	**372,111**	338,892
Fixed assets, net	**5,964**	26,804
Other assets, net	**92,629**	77,575
Deferred tax assets, net	**7,657**	10,738
Goodwill	**25,040**	25,040
Total assets	**$ 503,401**	$ 479,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 81,408**	$ 35,533
Accrued payroll costs	**71,424**	65,849
Current portion of operating lease liabilities	**6,338**	5,520
Other current liabilities	**22**	300
Income taxes payable	**1,239**	964
Total current liabilities	**160,431**	108,166
Long-term debt — credit facility	**100,000**	100,000
Other long-term liabilities	**54,564**	90,948
Total liabilities	**314,995**	299,114
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, $0.01 par; 15,000 shares authorized, none issued and outstanding	**—**	—
Common stock, $0.01 par; 250,000 shares authorized, 72,997 and 72,600 issued and outstanding, respectively	**730**	726
Additional paid-in capital	**488,036**	472,378
Accumulated other comprehensive income (loss)	**621**	(4,423)
Retained earnings	**442,596**	388,645
Treasury stock, at cost; 51,493 and 50,427 shares, respectively	**(743,577)**	(677,391)
Total stockholders' equity	**188,406**	179,935
Total liabilities and stockholders' equity	**$ 503,401**	$ 479,049

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	
(In thousands)	Shares	Amount
Balance, December 31, 2018	71,856	$719
Net income	—	—
Reclassification of stranded tax effects (Note 1)	—	—
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	346	3
Stock-based compensation expense	—	—
Employee stock purchase plan	—	—
Dividends ($0.72 per share)	—	—
Defined benefit pension plan, no tax benefit	—	—
Change in fair value of interest rate swap, net of tax of $272	—	—
Repurchases of common stock	—	—
Balance, December 31, 2019	72,202	722
Net income	—	—
Adoption of new accounting standard (Note 5), net of tax of $75	—	—
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	398	4
Stock-based compensation expense	—	—
Employee stock purchase plan	—	—
Dividends ($0.80 per share)	—	—
Defined benefit pension plan, no tax benefit	—	—
Change in fair value of interest rate swap, net of tax of $404	—	—
Repurchases of common stock	—	—
Balance, December 31, 2020	72,600	726
Net income	**—**	**—**
Issuance for stock-based compensation and dividend equivalents, net of forfeitures	**397**	**4**
Stock-based compensation expense	**—**	**—**
Employee stock purchase plan	**—**	**—**
Dividends ($0.98 per share)	**—**	**—**
Defined benefit pension plan, no tax benefit	**—**	**—**
Change in fair value of interest rate swap, net of tax provision of $657	**—**	**—**
Repurchases of common stock	**—**	**—**
Balance, December 31, 2021	**72,997**	**$730**

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

Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
$447,337	$ 1,296	$ 237,308	45,822	$ (518,329)	$ 168,331
—	—	130,862	—	—	130,862
—	168	(168)	—	—	—
846	—	(849)	—	—	—
11,007	—	—	—	—	11,007
355	—	—	(17)	203	558
—	—	(16,608)	—	—	(16,608)
—	(2,183)	—	—	—	(2,183)
—	(807)	—	—	—	(807)
—	—	—	3,472	(123,897)	(123,897)
459,545	(1,526)	350,545	49,277	(642,023)	167,263
—	—	56,039	—	—	56,039
—	—	(214)	—	—	(214)
934	—	(938)	—	—	—
11,595	—	—	—	—	11,595
304	—	—	(19)	245	549
—	—	(16,787)	—	—	(16,787)
—	(1,706)	—	—	—	(1,706)
—	(1,191)	—	—	—	(1,191)
—	—	—	1,169	(35,613)	(35,613)
472,378	(4,423)	388,645	50,427	(677,391)	179,935
—	**—**	**75,177**	**—**	**—**	**75,177**
1,102	**—**	**(1,106)**	**—**	**—**	**—**
13,999	**—**	**—**	**—**	**—**	**13,999**
557	**—**	**—**	**(15)**	**205**	**762**
—	**—**	**(20,120)**	**—**	**—**	**(20,120)**
—	**3,103**	**—**	**—**	**—**	**3,103**
—	**1,941**	**—**	**—**	**—**	**1,941**
—	**—**	**—**	**1,080**	**(66,391)**	**(66,391)**
$488,036	**$ 621**	**$442,596**	**51,492**	**$(743,577)**	**$ 188,406**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended December 31,	**2021**	2020	2019
Cash flows from operating activities:			
Net income	**$ 75,177**	$ 56,039	$ 130,862
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	**2,425**	(2,298)	(49)
Provision for credit losses	**11**	2,130	1,209
Depreciation and amortization	**4,500**	5,255	6,481
Stock-based compensation expense	**13,999**	11,595	9,912
Defined benefit pension plans expense	**2,157**	842	862
Loss on disposal or impairment of assets	**(1,929)**	1,822	1,084
Noncash lease expense	**5,509**	5,499	6,282
Loss on equity method investment	**2,480**	1,681	831
Other	**1,036**	1,056	1,056
(Increase) decrease in operating assets			
Trade receivables, net	**(36,960)**	(12,863)	(5,360)
Other assets	**(9,779)**	(4,485)	(9,639)
Increase (decrease) in operating liabilities			
Accrued payroll costs	**6,337**	22,397	4,567
Other liabilities	**7,935**	20,489	(2,163)
Cash provided by operating activities	**72,898**	109,159	66,617
Cash flows from investing activities:			
Capital expenditures	**(6,441)**	(6,475)	(10,359)
Equity method investment	**(9,000)**	(4,000)	(9,000)
Net proceeds from the sale of assets held for sale	**23,742**	3,548	122,544
Cash provided by (used in) investing activities	**8,301**	(6,927)	103,185
Cash flows from financing activities:			
Proceeds from credit facility	**—**	35,000	80,100
Payments on credit facility	**—**	—	(86,900)
Payments on other financing arrangements, payment of contingent consideration liability and other	**(308)**	(1,177)	(2,222)
Payments of loan financing fees	**(1,058)**	—	—
Repurchases of common stock	**(66,210)**	(35,613)	(124,453)
Cash dividends	**(20,120)**	(16,787)	(16,608)
Cash used in financing activities	**(87,696)**	(18,577)	(150,083)
Change in cash and cash equivalents	**(6,497)**	83,655	19,719
Cash and cash equivalents at beginning of year	**103,486**	19,831	112
Cash and cash equivalents at end of year	**$ 96,989**	$103,486	$ 19,831

Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Income taxes	**$ 24,277**	$ 21,737	$ 24,935
Operating lease liabilities	**7,468**	7,330	8,186
Interest, net	**2,453**	2,574	1,480
Non-Cash Financing and Investing Transactions:			
ROU assets obtained from operating leases	**$ 5,098**	$ 5,695	$ 9,205
Employee stock purchase plan	**762**	549	558

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").

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 and managed solutions 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. The vast majority of our terms are typically less than 90 days, however, 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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020.

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 technology for a SaaS platform focused on talent communities in areas that include consultant engagement, automated BOT, 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 $2.5 million and $1.7 million during the years ended December 31, 2021 and 2020, respectively. The balance of the investment in WorkLLama of $17.0 million and $10.5 million was included in Other assets, net in the Consolidated Balance Sheets at December 31, 2021 and 2020, respectively.

Under the joint venture operating agreement for WorkLLama, Kforce was originally 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. Under the operating agreement, our maximum potential capital contributions are $22.5 million. The original operating and financial milestones established in the joint venture operating agreement were not achieved, in part, due to the impacts of the COVID-19 pandemic on WorkLLama's business. We continued to provide capital contributions to the joint venture due to our belief in the long-term value of the joint venture. During the years ended December 31, 2021 and 2020, we contributed $9.0 million and $4.0 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 business enterprises, WorkLLama was impacted by the COVID-19 pandemic and made adjustments in 2021 to its primary addressable market, go to market strategy and other strategic objectives. Given this, management determined that a triggering event had occurred. Thus, we performed an impairment test as of December 31, 2021, utilizing the market and income approaches. For the income approach, we utilized estimated discounted future cash flows expected to be generated by WorkLLama. For the market approach, we utilized 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 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. Changes in key assumptions about the financial condition of an investee or actual conditions that differ from estimates could result in an impairment charge. As a result of the impairment test, we concluded that the carrying value of the equity method investment was not impaired.

Operating Leases

Kforce leases property for our field offices and corporate headquarters 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 Sheets. 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. However, in September 2021, we entered into a lease agreement for office space in Tampa, Florida, which will become our new corporate headquarters. The new lease has not yet commenced, but will require aggregate future lease payments of approximately $10.9 million over the entire lease term, which includes annual upward adjustments, and has a non-cancellable lease term of 129 months, excluding renewal options. The new lease also provides for the Company to receive an allowance from the landlord, of $1.6 million to be used towards costs to design, engineer, install, supply and to construct improvements. 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, 2021, 2020 and 2019 was $1.7 million, $1.1 million, $1.1 million, respectively.

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.

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, 2021, 2020 and 2019, there were 633 thousand, 412 thousand and 586 thousand common stock equivalents, respectively, included in the diluted WASO. For the years ended December 31, 2021, 2020 and 2019, there were 9 thousand, 249 thousand and one thousand, 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 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 was effective for fiscal periods beginning after December 15, 2020, with the retrospective method required for all periods presented. The Company adopted the provisions of this new accounting standard at the beginning of fiscal year 2021. This guidance did not have a financial impact on the Company's financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This ASU is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to: (1) recognition of an acquired contract liability, and 2) payment terms and their effect on subsequent revenue recognized by the acquirer. ASU 2021-08 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2022. Early adoption of this ASU is permitted. We are currently evaluating the impact of ASU 2021-08 on our consolidated financial statements. Other recently issued statements have been evaluated, but are not listed here as it has been determined that they are not applicable to our Firm.

2. DISCONTINUED OPERATIONS

During 2019, management divested the Government Solutions ("GS") segment as a result of the Firm's decision to focus its efforts on its Technology and FA businesses. The GS segment consisted of Kforce Government Solution ("KGS"), our former 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):

Year Ended December 31,	2019
Revenue	$27,737
Direct costs	19,494
Gross profit	8,243
Selling, general and administrative expenses	6,988
Depreciation and amortization	307
Income from discontinued operations	948
Gain on sale of discontinued operations	79,318
Other (expense) income, net	(436)
Income from discontinued operations, before income taxes	79,830
Income tax expense	3,534
Income from discontinued operations, net of tax	$76,296

The effective tax rate for discontinued operations, including the gain on sale of discontinued operations, was 4.4% for the year ended December 31, 2019. There are no reportable results for the years ended December 31, 2021 and December 31, 2020.

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):

Year Ended December 31,	2019
Cash Provided by	
GS Operating Activities	$ 4,547
GS Investing Activities	$117,798

3. REPORTABLE SEGMENTS

Kforce's reportable segments are Technology and FA. Historically, and for the year ended December 31, 2021, 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):

	Technology	FA	Total
2021			
Revenue	**$1,273,941**	**$305,981**	**$1,579,922**
Gross profit	**$ 355,971**	**$100,893**	**$ 456,864**
Operating and other expenses			**357,597**
Income from continuing operations, before income taxes			**$ 99,267**
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

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):

	Technology	FA	Total
2021			
Flex revenue	**$1,247,560**	**$282,597**	**$1,530,157**
Direct Hire revenue	**26,381**	**23,384**	**49,765**
Total Revenue	**$1,273,941**	**$305,981**	**$1,579,922**
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

5. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses on trade receivables is determined based on the 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, 2021.

The following table presents the activity within the allowance for credit losses on trade receivables for the years ended December 31, 2021 and 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
Current period provision	11
Write-offs charged against the allowance, net of recoveries of amounts previously written off	(1,039)
Allowance for credit losses, December 31, 2021	$ 1,729

(1) As a result of the adoption of the 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.

The allowances on trade receivables presented in the Consolidated Balance Sheets include $0.6 million and $0.4 million at December 31, 2021 and December 31, 2020, respectively, for reserves unrelated to credit losses.

6. FIXED ASSETS, NET

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

December 31,	USEFUL LIFE	**2021**	2020
Land(1)		**$ —**	$ 5,892
Building and improvements(1)	3-40 years	**—**	25,964
Furniture and equipment	1-10 years	**5,630**	6,926
Computer equipment	1-5 years	**5,358**	5,472
Leasehold improvements	1-8 years	**6,989**	6,185
Total fixed assets		**17,977**	50,439
Less accumulated depreciation		**(12,013)**	(23,635)
Total Fixed assets, net		**$ 5,964**	$ 26,804

(1) On May 19, 2021, we completed the sale of our corporate headquarters to an independent third party. The sale was comprised of land, a building and building improvements, which collectively had a net book value of $21.7 million. We received net proceeds of $23.7 million and recognized a gain on the sale in the amount of $2.0 million, which is recorded in SG&A expenses in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

Depreciation expense was $2.8 million, $4.1 million and $4.9 million during the years ended December 31, 2021, 2020 and 2019, respectively.

7. INCOME TAXES

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

Years Ended December 31,	2021	2020	2019
Current tax expense:			
Federal	**$15,617**	$17,278	$12,074
State	**5,765**	4,119	5,057
Deferred tax expense	**2,708**	(2,224)	(301)
Total Income tax expense	**$24,090**	$19,173	$16,830

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,	2021	2020	2019
Federal income tax rate	**21.0%**	21.0%	21.0%
State income taxes, net of Federal tax effect	**5.0**	5.3	5.8
Non-deductible compensation and meals and entertainment	**2.2**	1.4	1.6
Tax credits	**(2.2)**	(1.5)	(2.1)
Tax benefit from restricted stock vesting	**(2.6)**	(1.5)	(1.6)
Other	**0.9**	0.8	(1.1)
Effective tax rate	**24.3%**	25.5%	23.6%

The 2021 effective rate was favorably impacted by a higher Work Opportunity Tax Credit (WOTC) and a greater tax benefit from the vesting of restricted stock in 2021 versus 2020. These were offset by greater non-deductible compensation to certain executive officers pursuant to IRS Code Section 162(m). The 2020 effective tax rate was unfavorably impacted by a lower WOTC in 2020 versus 2019. The 2019 effective tax rate was favorably impacted primarily by 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,	2021	2020
Deferred tax assets:		
Accounts receivable reserves	**$ 604**	$ 829
Accrued liabilities	**2,367**	1,657
Deferred compensation obligation	**5,702**	5,046
Stock-based compensation	**715**	618
Operating lease liabilities	**4,704**	5,223
Pension and post-retirement benefit plans	**2,929**	3,721
Deferred payroll taxes	**4,965**	4,978
Other	**11**	461
Deferred tax assets	**21,997**	22,533
Deferred tax liabilities:		
Prepaid expenses	**(604)**	(489)
Fixed assets	**(4,185)**	(2,811)
Goodwill and intangible assets	**(2,413)**	(2,370)
ROU assets for operating leases	**(3,965)**	(4,347)
Partnership basis difference	**(2,966)**	(1,469)
Other	**(207)**	(309)
Deferred tax liabilities	**(14,340)**	(11,795)
Valuation allowance	**—**	—
Total Deferred tax assets, net	**$ 7,657**	$ 10,738

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

Kforce is periodically subject to IRS audits, as well as state and other local income tax audits for various tax years. 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,	**2021**	2020	2019
Unrecognized tax benefits, beginning	**$ 182**	$ 383	$ 906
Lapse of statute of limitations	**(159)**	(188)	(497)
Reductions for tax positions of prior years	**—**	(13)	—
Settlements	**—**	—	(26)
Unrecognized tax benefits, ending	**$ 23**	$ 182	$ 383

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 2018.

8. OTHER ASSETS, NET

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

December 31,	**2021**	2020
Assets held in Rabbi Trust	**$41,607**	$36,164
ROU assets for operating leases, net	**15,395**	16,835
Equity method investment	**17,008**	10,488
Capitalized software, net(1)	**14,666**	12,802
Deferred loan costs, net	**1,115**	501
Other non-current assets	**2,838**	785
Total Other assets, net	**$92,629**	$77,575

(1) Accumulated amortization of capitalized software was $35.5 million and $34.0 million as of December 31, 2021 and 2020, respectively.

9. GOODWILL

The following table presents the gross amount and accumulated impairment losses for each of our reporting units as of December 31, 2021, 2020 and 2019 (in thousands):

	Technology	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, 2021, 2020 and 2019.

Management performed its annual impairment assessment of the carrying value of goodwill as of December 31, 2021 and 2020. 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, 2021 and 2020. 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,	**2021**	2020
Accounts payable	**$40,241**	$20,177
Accrued liabilities	**41,167**	15,356
Total Accounts payable and other accrued liabilities	**$81,408**	$35,533
Payroll and benefits	**$43,738**	$38,257
Payroll taxes	**22,466**	21,842
Health insurance liabilities	**4,474**	4,641
Workers' compensation liabilities	**746**	1,109
Total Accrued payroll costs	**$71,424**	$65,849

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,	**2021**	2020
Deferred compensation plan	**$42,623**	$34,501
Supplemental executive retirement plan	**—**	20,628
Operating lease liabilities	**11,919**	14,692
Interest rate swap derivative instrument	**—**	1,774
Other long-term liabilities	**22**	19,353
Total Other long-term liabilities	**$54,564**	$90,948

12. OPERATING LEASES

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

December 31,	**2021**	2020
Weighted-average discount rate	**3.0%**	3.5%
Weighted-average remaining lease term	**3.9 years**	4.8 years

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

December 31,	**2021**	2020
Lease Cost		
Operating lease expense	**$6,363**	$7,669
Variable lease costs	**1,078**	1,387
Short-term lease expense	**1,199**	855
Sublease income	**(87)**	(344)
Total operating lease expense	**$8,553**	$9,567

The following table presents the maturities of operating lease liabilities as of December 31, 2021 (in thousands):

2022	$ 6,787
2023	4,658
2024	3,369
2025	2,054
2026	981
Thereafter	1,543
Total maturities of operating lease liabilities	19,392
Less: imputed interest	1,135
Total operating lease liabilities	$18,257

As noted in Note 6 above, on May 19, 2021, we completed the sale of our corporate headquarters to an independent third party. In conjunction with the sale, we entered into an agreement to lease back the building for a period of 18 months. The lease expense is included in the operating lease expense amounts listed above.

On September 28, 2021, we finalized a lease agreement for office space in Tampa, Florida, which will become our new corporate headquarters. The new lease has not yet commenced but will require aggregate future lease payments of approximately $10.9 million over the entire lease term, which includes annual upward adjustments, and has a non-cancellable lease term of 129 months, excluding renewal options. The new lease also provides for the Company to receive an allowance from the landlord, of $1.6 million to be used toward costs to design, engineer, install, supply and to construct improvements, which will become part of the building, all of which must be approved by the landlord and the Company. The landlord will designate a general contractor and oversee all construction improvements. The future lease payments and the allowance are not yet recorded on our condensed consolidated balance sheets. Lease payments will be required beginning July 1, 2023, however, we expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin at the start of the fourth quarter of 2022.

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 $1.9 million and $1.7 million as of December 31, 2021 and 2020, 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 15 thousand, 19 thousand, and 17 thousand shares of common stock at an average purchase price of $51.10, $29.43 and $32.79 per share during the years ended December 31, 2021, 2020 and 2019, 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, 2021 and 2020, amounts related to the deferred compensation plans included in Accounts payable and other accrued liabilities were $4.1 million and $4.2 million, respectively, and $42.6 million and $34.5 million was included in Other long-term liabilities at December 31, 2021 and 2020, respectively, in the Consolidated Balance Sheets. For the years ended December 31, 2021, 2020 and 2019, we recognized compensation expense for the plans of $1.1 million, $1.0 million and $0.4 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. The balance of the assets held within the Rabbi Trust, including the cash surrender value of the Company-owned life insurance policies, was $41.6 million and $36.2 million as of December 31, 2021 and 2020, respectively, and is recorded in Other assets, net in the accompanying Consolidated Balance Sheets. As of December 31, 2021, the life insurance policies had a net death benefit of $170.3 million.

Supplemental Executive Retirement Plan

Prior to April 30, 2021, Kforce maintained a Supplemental Executive Retirement Plan ("SERP"), which benefited two executives. The SERP was a non-qualified benefit plan and did not include elective deferrals of covered executive officers' compensation. The related net periodic benefit costs were comprised of service cost and interest cost. The service cost amounted to $199 thousand, $345 thousand and $261 thousand for the years ended December 31, 2021, 2020 and 2019, respectively, and were recorded in SG&A. The interest cost amounted to $138 thousand, $497 thousand and $601 thousand for the years ended December 31, 2021, 2020 and 2019, respectively, and were recorded in Other expense, net in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

Effective April 30, 2021, Kforce's Board of Directors irrevocably terminated the SERP. The benefits owed to the two participants under the SERP as of December 31, 2021 amount to $20.0 million in the aggregate, which represented the fair value at the date of termination, and is recorded in Other accrued liabilities in Note 10 of the Consolidated Balance Sheets. Kforce must make the benefit payments to the participants within 24 months of the termination date but no sooner than 12 months after the termination date. We anticipate making the benefit payments during the third quarter ending September 30, 2022.

As a result of the termination of the SERP, Kforce recognized a net loss of $1.8 million for the year ended December 31, 2021, which is reflected in Other expense, net in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

14. CREDIT FACILITY

On October 20, 2021, the Firm entered into an amended and restated 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, BMO Harris Bank, N.A., as documentation agent, and the lenders referred to therein (the "Amended and Restated Credit Facility"). Under the Amended and Restated Credit Facility, the Firm has a maximum borrowing capacity of $200.0 million, which may, subject to certain conditions and the participation of the lenders, be increased up to an aggregate additional amount of $150.0 million (the "Commitment"). The maturity date of the Amended and Restated Credit Facility is October 20, 2026.

Revolving credit loans under the Amended and Restated 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 Amended and Restated 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, National Association prime rate, (ii) the federal funds rate plus 0.50% or (iii) one-month LIBOR plus 1.00%, and the LIBOR Rate is reserve-adjusted LIBOR for the applicable interest period, but not less than zero. The Applicable Margin is based on the Firm's total leverage ratio. The Applicable Margin for Base Rate loans ranges from 0.125% to 0.500% and the Applicable Margin for LIBOR Rate loans ranges from 1.125% to 1.50%. The Amended and Restated Credit Facility includes customary provisions relating to the transition from LIBOR as the benchmark interest rate under the Credit Agreement, including providing for a Benchmark Replacement option (as defined in the Credit Agreement) to replace LIBOR. 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 0.30%.

The Firm is subject to certain affirmative and negative financial 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 3.50 to 1.00. The numerator in the fixed charge coverage ratio is defined pursuant to the Amended and Restated 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 (defined as "Consolidated EBITDA"), less cash paid for capital expenditures, income taxes and dividends. The denominator is defined as Kforce's fixed charges such as interest expense and principal payments paid or payable on outstanding debt other than borrowings under the Amended and Restated Credit Facility. The total leverage ratio is defined pursuant to the Amended and Restated 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 in excess of $25.0 million over the last four quarters could be limited if (a) the total leverage ratio is greater than 3.00 to 1.00 and (b) the Firm's availability, inclusive of unrestricted cash, is less than $25.0 million. As of December 31, 2021 and 2020, $100.0 million and $100.0 million was outstanding on the Credit Facility and the Amended and Restated Credit Facility, respectively. Kforce had $1.3 million and $1.5 million of outstanding letters of credit at December 31, 2021 and 2020, respectively, which pursuant to the Amended and Restated 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 a forward-starting interest rate swap agreement with Wells Fargo Bank, N.A ("Swap B", together with Swap A, the "Swaps"). 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 increase in the notional amount of Swap B in May 2022 corresponds to the decrease in the notional amount for Swap A.

The Firm uses the Swaps as interest rate risk management tools to mitigate the potential impact of rising interest rates on variable rate debt. The fixed interest rate for each Swap (which will remain throughout the remainder of the hedging arrangement), 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, 2021. The change in the fair value of the Swaps is recorded as a component of Accumulated other comprehensive income (loss) 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,	**2021**	2020
Accumulated derivative instrument gain, beginning of year	**$(1,774)**	$ (179)
Net change associated with current period hedging transactions	**2,597**	(1,595)
Accumulated derivative instrument gain (loss) end of year	**$ 823**	$(1,774)

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, 2021 and 2020 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, 2021				
Recurring basis:				
Interest rate swap derivative instruments	**$ 823**	**$ —**	**$ 823**	**$ —**
At December 31, 2020				
Recurring basis:				
Interest rate swap derivative instrument	$(1,774)	$ —	$(1,774)	$ —

There were no transfers into or out of Level 1, 2 or 3 assets or liabilities during the years ended December 31, 2021 and 2020.

17. STOCK INCENTIVE PLANS

On April 22, 2021, the Kforce shareholders approved the 2021 Stock Incentive Plan (the "2021 Plan"). The 2021 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 2021 Plan is approximately 3.9 million shares. The 2021 Plan terminates on April 28, 2031. Prior to the effective date of the 2021 Plan, the Company granted stock awards to eligible participants under our 2020 Stock Incentive Plan, 2017 Stock Incentive Plan, 2016 Stock Incentive Plan and 2013 Stock Incentive Plan (collectively the "Prior Plans"). As of the effective date of the 2021 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, 2021, 2020 and 2019, stock-based compensation expense was $14.0 million, $11.6 million and $9.8 million, respectively. The related tax benefit for the years ended December 31, 2021, 2020 and 2019 was $4.1 million, $3.4 million, and $2.3 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, 2021, will vest ratably over a period of three to four years. Other restricted stock granted during the year ended December 31, 2021, will vest ratably over a period of one to ten years and some at non-ratable periods between one and seven 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, 2021, (in thousands, except per share amounts):

	Weighted-Average Number of Restricted Stock	Total Instrinsic Grant Date Fair Value	Value of Restricted Stock Vested
Outstanding at December 31, 2020	1,137	$ 33.63	
Granted	**417**	**$47.58**	
Forfeited/Canceled	**(20)**	**$26.93**	
Vested	**(451)**	**$32.16**	**$33,559**
Outstanding at December 31, 2021	**1,083**	**$35.00**	

The weighted-average grant date fair value of restricted stock granted was $47.58, $40.11 and $38.37 during the years ended December 31, 2021, 2020 and 2019, respectively. The total intrinsic value of restricted stock vested was $33.6 million, $18.0 million and $18.8 million during the years ended December 31, 2021, 2020 and 2019, 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, 2021, total unrecognized stock-based compensation expense related to restricted stock was $50.3 million, which will be recognized over a weighted-average remaining period of 3.0 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, 2021, these purchase commitments amounted to approximately $19.0 million and are expected to be paid as follows: $8.2 million in 2022; $4.9 million in 2023, $4.8 million in 2024, $0.9 million in 2025 and $0.2 million in 2026.

Letters of Credit

Kforce provides letters of credit to certain vendors in lieu of cash deposits. At December 31, 2021, Kforce had letters of credit outstanding for operating lease and insurance coverage deposits totaling $1.3 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 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 Number: RG19047269. The former employee purports to bring a representative action on her own behalf and on behalf of other allegedly aggrieved employees pursuant to California Private Attorneys General Act of 2004, California Labor Code Section 2968, *et seq.* ("PAGA") alleging violations of the California Labor Code, §201, et seq. ("Labor Code"). The plaintiff seeks civil penalties, interest, attorneys' fees, and costs under the Labor Code for alleged failure to: provide and pay for work performed during meal and rest periods; properly calculate and pay all earned minimum and overtime wages; provide compliant wage statements; timely pay wages during employment and upon termination; and reimburse business expenses. The parties halted early resolution attempts, and we intend to continue to vigorously defend the claims. At this stage in the litigation, it is not feasible to predict the outcome of this matter or reasonably estimate a range of loss, should a loss occur, from this proceeding.

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, which was subsequently amended on January 21, 2021, to add Kforce Flexible Solutions as a party. Bernardo Buchsbaum, et al. v. Kforce Inc., et al., Case Number: 37-2020-00030994-CU-OE-CTL. The former employee purports to bring a representative action on his own behalf and on behalf of other allegedly aggrieved employees pursuant to PAGA alleging violations of the Labor Code. The plaintiff seeks civil penalties, interest, attorney's fees, and costs under the Labor Code for alleged failure to: properly calculate and pay all earned minimum and overtime wages; provide and pay for work performed during meal and rest periods; reimburse business expenses; provide compliant wage statements; and provide unused vacation wages upon termination. The parties reached a preliminary settlement agreement to resolve this matter along with *Elliott-Brand*, *et al. v. Kforce Inc.*, *et al.* and *Lewis, et al. v. Kforce Inc.*, which is subject to approval by the Court. Plaintiff Buchsbaum has been added as a plaintiff to the *Elliott-Brand* lawsuit, and this lawsuit will be dismissed after the Court's approval of the settlement. 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 11, 2020, a complaint was filed against Kforce and its client, Verity Health System of California (Verity) in the Superior Court of California, County of Los Angeles, which was subsequently amended on February 19, 2021. Ramona Webb v. Kforce Flexible Solutions, LLC, et al., Case Number: 20STCV47529. Former consultant Ramona Webb has sued both Kforce and Verity alleging certain individual claims in addition to a PAGA claim based on alleged violations of various provisions of the Labor Code. With respect to the PAGA claim, Plaintiff seeks to recover on her behalf, on behalf of the State of California, and on behalf of all allegedly aggrieved employees, the civil penalties provided by PAGA, attorney's fees and costs. 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. We intend to continue to vigorously defend the claims.

On December 24, 2020, a complaint was filed 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 Number: 20STCV49193. On January 7, 2022, the lawsuit was amended to add Bernardo Buchsbaum and Josie Meister as plaintiffs and to add claims under PAGA and the Fair Labor Standards Act, 29 U.S.C. §§ 201, *et seq*. On behalf of themselves and a putative class and collective of talent recruiters and allegedly aggrieved employees in California and nationwide, the plaintiffs purport to bring a class action for alleged violations of the Labor Code, Industrial Welfare Commission Wage Orders, and the California Business and Professions Code, §17200, *et seq.*, a collective action for alleged violations of FLSA, and a PAGA action for alleged violations of the Labor Code. The plaintiffs seek payment to recover unpaid wages and benefits, interest, attorneys' fees, costs and expenses, penalties, and liquidated damages for alleged failure to: properly calculate and pay all earned minimum and overtime wages; provide meal and rest periods or provide compensation in lieu thereof; provide accurate itemized wage statements; reimburse for all business expenses; pay wages due upon separation; and pay for all hours worked over forty in one or more workweeks. Plaintiffs also seek an order requiring defendants to restore and disgorge all funds acquired by means of unfair competition under the California Business and Professions Code. The parties reached a preliminary agreement to resolve this matter along with *Lewis*, *et al. v. Kforce Inc.* and *Buchsbaum*, *et al. v. Kforce Inc.*, *et al.*, which is subject to approval by the Court, and we have set reserves accordingly. 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 August 30, 2021, Kforce Inc. was served with a complaint brought in the U.S. District Court, Southern District of California. Darryn Lewis, et al. v. Kforce Inc., Case Number: 3:21-cv-01375-AJB-JLB. On behalf of himself and others similarly situated, the plaintiff brings a one-count class action complaint for alleged violations of the FLSA, and specifically, failure to pay overtime wages to a putative class of commissioned employees who work or have worked for Kforce, nationwide, in the past three (3) years. Plaintiff and class members seek the amounts of unpaid wages and benefits allegedly owed to them, liquidated damages, compensatory damages, economic and/or special damages, attorneys' fees and costs, interest, and other legal and equitable relief for alleged failure to: maintain a policy that compensates its employees for all hours worked; properly classify employees as nonexempt from overtime; and pay overtime pay for all hours worked over forty in one or more workweeks. The parties reached a preliminary settlement agreement to resolve this matter along with *Elliott-Brand*, *et al. v. Kforce Inc.*, *et al.* and *Buchsbaum*, *et al. v. Kforce Inc.*, *et al.*, which is subject to approval by the Court. This lawsuit will be dismissed as part of the settlement, once approved by the Court. 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 January 6, 2022, a complaint was filed against Kforce Inc. in the Superior Court of the State of California for the County of Los Angeles and was served on January 21, 2022. Jessica Cook and Brianna Pratt, et al. v. Kforce Inc., Case Number: 22STCV00602. On behalf of themselves and others similarly situated, plaintiffs purport to bring a class action alleging violations of Labor Code and the California Business and Professional Code and challenging the exempt classification of a select class of recruiters. Plaintiffs and class members seek damages for all earned wages, statutory penalties, injunctive relief, attorney's fees, and interest for alleged failure to: properly classify certain recruiters as nonexempt from overtime; timely pay all wages earned, including overtime premium pay; provide accurate wage statements; provide meal and rest periods; and comply with California's Unfair Competition Law. Kforce anticipated this action would be filed as a result of failed early resolution attempts in the previously disclosed *Jessica Cook v. Kforce*, *et al.* lawsuit. 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. We intend to vigorously defend the claims.

On January 6, 2022, a complaint was filed against Kforce Inc. in the United States District Court for the Middle District of Florida and was served on February 4, 2022. Sam Whiteman, et al. v. Kforce Inc., Case Number: 8:22-cv-00056. On behalf of himself and all others similarly situated, the plaintiff brings a one-count collective action complaint for alleged violations of the FLSA by failing to pay overtime wages. Plaintiff, on behalf of himself and the putative collective, seeks to recover unpaid wages, liquidated damages, attorneys' fees and costs, and prejudgment interest for alleged failure to properly classify specified recruiters as nonexempt from overtime and properly compensate for all hours worked over 40 hours in one or more workweeks. 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. We intend to vigorously defend the claims.

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, 2021, our liability would be approximately $36.9 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 $13.0 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.

CORPORATE INFORMATION

KFORCE℠

BOARD OF DIRECTORS

David L. Dunkel
Chairman of the Board

Derrick Brooks
Executive Vice President, Corporate & Community Business Development, Vinik Sports Group

Catherine Cloudman
President and Chief Executive Officer, CHC Advisors, LLC

Ann E. Dunwoody
General (Retired), U.S. Army
President, First 2 Four, LLC

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

Joseph J. Liberatore
President and Chief Executive Officer, Kforce Inc.

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

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

N. John Simmons
Chief Executive Officer, Growth Advisors, LLC

Ralph E. Struzziero
Lead Independent Director

EXECUTIVE OFFICERS

Joseph J. Liberatore
President and Chief Executive Officer

David M. Kelly
Chief Financial Officer and Secretary

Kye L. Mitchell
Chief Operations Officer

Andrew G. Thomas
Chief Marketing 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 18, 2022 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℠

Corporate Headquarters:
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(813) 552-5000

OFFICE LOCATIONS

ARIZONA
Phoenix

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

COLORADO
Centennial (Denver)

CONNECTICUT
Rocky Hill
Shelton

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

GEORGIA
Atlanta

ILLINOIS
Chicago
Rolling Meadows
Schaumburg

KANSAS
Overland Park (Kansas City)

MARYLAND
Linthicum (Baltimore)

MASSACHUSETTS
Boston

MICHIGAN
Grand Rapids

MISSOURI
St. Louis

NEW YORK
New York

NORTH CAROLINA
Charlotte

OHIO
Dublin (Columbus)

OREGON
Lake Oswego (Portland)

PENNSYLVANIA
King of Prussia

TEXAS
Austin
Dallas
Fort Worth
Houston
San Antonio

UTAH
Sandy (Salt Lake City)

VIRGINIA
Reston

WASHINGTON
Kirkland (Seattle)

WISCONSIN
Madison
Milwaukee