

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 For the fiscal year ended January 1, 2017  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-1088

**KELLY SERVICES, INC.**

(Exact Name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

38-1510762

(IRS Employer Identification Number)

999 West Big Beaver Road, Troy, Michigan

(Address of Principal Executive Office)

48084

(Zip Code)

(248) 362-4444

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common	NASDAQ Global Market
Class B Common	NASDAQ Global Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$560,567,627.

Registrant had 34,806,309 shares of Class A and 3,437,643 of Class B common stock, par value \$1.00, outstanding as of February 5, 2017.

Documents Incorporated by Reference

The proxy statement of the registrant with respect to its 2017 Annual Meeting of Stockholders is incorporated by reference in Part III.

## **PART I**

Unless the context otherwise requires, throughout this Annual Report on Form 10-K the words “Kelly,” “Kelly Services,” “the Company,” “we,” “us” and “our” refer to Kelly Services, Inc. and its consolidated subsidiaries.

### **ITEM 1. BUSINESS.**

#### **History and Development of Business**

Founded by William R. Kelly in 1946, Kelly Services® has developed innovative workforce solutions for customers in a variety of industries throughout our 70-year history. Our range of solutions has grown steadily over the years to match the changing needs of our customers and to reflect the changing nature of our work.

We have evolved from a United States-based company concentrating primarily on traditional office staffing into a global workforce solutions leader offering a full breadth of specialty services. While ranking as one of the world’s largest scientific staffing providers, we also place professional and technical employees at all levels in engineering, IT, law, healthcare and finance. These specialty services complement our expertise in office services, education, contact center, light industrial and electronic assembly staffing. As the human capital arena has become more complex, we have also developed a talent supply chain management approach to help many of the world’s largest companies plan for and manage their workforce. Innovative solutions supporting this approach span outsourcing, consulting, recruitment, career transition and vendor management services.

#### **Geographic Breadth of Services**

Headquartered in Troy, Michigan, Kelly provides workforce solutions to a diversified group of customers in three regions: the **Americas; Europe, the Middle East, and Africa (“EMEA”)**; and **Asia Pacific (“APAC”)**. Our customer base spans a variety of industries and includes 95 of the *Fortune 100*™ companies.

In 2016, we assigned nearly 500,000 temporary employees to a variety of customers around the globe.

#### **Description of Business Segments**

Our operations are divided into seven principal business segments: **Americas Commercial**, Americas Professional and Technical (“**Americas PT**”), **EMEA Commercial**, EMEA Professional and Technical (“**EMEA PT**”), **APAC Commercial**, APAC Professional and Technical (“**APAC PT**”) and Outsourcing and Consulting Group (“**OCG**”). In July 2016, we transferred our APAC Commercial and APAC PT staffing operations to TS Kelly Asia Pacific, an expanded joint venture with our long-time partner, Temp Holdings. Kelly retains a 49% ownership interest in TS Kelly Asia Pacific. OCG in the APAC region remains wholly Kelly-owned and continues to provide holistic workforce solutions throughout the APAC region.

##### ***Americas Commercial***

Our Americas Commercial segment specialties include: Office, providing trained employees for data entry, clerical and administrative support roles across numerous industries; Contact Center, providing staff for contact centers, technical support hotlines and telemarketing units; Education, supplying schools nationwide with instructional and non-instructional employees; Marketing, providing support staff for seminars, sales and trade shows; Electronic Assembly, providing assemblers, quality control inspectors and technicians; and Light Industrial, placing maintenance workers, material handlers and assemblers. We also offer a temporary-to-hire service that provides customers and temporary staff the opportunity to evaluate their relationship before making a full-time employment decision, as well as a direct-hire placement service and vendor on-site management.

##### ***Americas PT***

Our Americas PT segment includes a number of specialty staffing services: Science, providing all levels of scientists and scientific and clinical research workforce solutions; Engineering, supplying engineering professionals across all disciplines, including aeronautical, chemical, civil/structural, electrical/instrumentation, environmental, industrial, mechanical, petroleum, pharmaceutical, quality and telecommunications; Information Technology, placing IT specialists across all disciplines; Creative Services, placing creative talent in the spectrum of creative services positions; Finance and Accounting, serving the needs of corporate finance departments, accounting firms and financial institutions with all levels of financial professionals; Healthcare, providing all levels of healthcare specialists and professionals; and Law, placing legal professionals including attorneys, paralegals, contract administrators, compliance specialists and legal administrators. Our temporary-to-hire service, direct-hire placement service and vendor on-site management are also offered in this segment.

### ***EMEA Commercial***

Our EMEA Commercial segment provides a similar range of staffing services as described for our Americas Commercial segment above, including: Office, Contact Center and our temporary-to-hire service. Additional service areas include: Catering and Hospitality, providing chefs, porters and hospitality representatives; and Industrial, supplying manual workers to semi-skilled professionals in a variety of trade, non-trade and operational positions.

### ***EMEA PT***

Our EMEA PT segment provides many of the same services as described for our Americas PT segment, including: Engineering, Finance and Accounting, Healthcare, IT and Science.

### ***APAC Commercial***

Our APAC Commercial segment offered a similar range of commercial staffing services as described for our Americas and EMEA Commercial segments above, through staffing solutions that included permanent placement, temporary staffing and temporary to full-time staffing. The operations of this segment were transferred to TS Kelly Asia Pacific in July 2016.

### ***APAC PT***

Our APAC PT segment provided many of the same services as described for our Americas and EMEA PT segments, including: Engineering, IT and Science. The operations of this segment were transferred to TS Kelly Asia Pacific in July 2016.

### ***OCG***

Our OCG segment delivers integrated talent management solutions to meet customer needs across multiple regions, skill sets and the entire spectrum of talent categories. Using talent supply chain strategies, we help customers manage their full-time and contingent labor spend, and gain access to service providers and quality talent at competitive rates with minimized risk. Services in this segment include: *Contingent Workforce Outsourcing ("CWO")*, providing globally managed service solutions that integrate supplier and vendor management technology partners to optimize contingent workforce spend; *Business Process Outsourcing ("BPO")*, offering full staffing and operational management of non-core functions or departments; *Recruitment Process Outsourcing ("RPO")*, offering end-to-end talent acquisition solutions, including customized recruitment projects; *Independent Contractor Solutions*, delivering evaluation, classification and risk management services that enable safe access to this critical talent pool; *Payroll Process Outsourcing ("PPO")*, providing centralized payroll processing solutions globally for our customers; and *Career Transition and Executive Coaching and Development*, providing leadership in executive placement in various regions throughout the world.

Financial information regarding our industry segments is included in the Segment Disclosures note to our consolidated financial statements presented in Part II, Item 8 of this report.

## **Business Objectives**

Kelly's philosophy is rooted in our conviction that our business can and does make a difference on a daily basis — for our customers, in the lives of our employees, in the local communities we serve and in our industry. Our vision is "to provide the world's best workforce solutions." We aspire to be a strategic business partner to our customers and strive to assist them in operating more efficient and profitable organizations. Our solutions are customized to benefit any scope or scale customers require.

As the use of contingent labor, consultants and independent contractors becomes more prevalent and critical to the ongoing success of our customer base, our core competencies are refined to help them realize their respective business objectives. Kelly offers a comprehensive array of outsourcing and consulting services, as well as world-class staffing on a temporary, temporary-to-hire and direct placement basis. Kelly will continue to deliver the strategic expertise our customers need to transform their workforce challenges into opportunities.

## **Business Operations**

### ***Service Marks***

We own numerous service marks that are registered with the United States Patent and Trademark Office, the European Union Community Trademark Office and numerous individual country trademark offices.

### ***Seasonality***

Our quarterly operating results are affected by the seasonality of our customers' businesses. Demand for staffing services historically has been lower during the first quarter, and typically increases during the remainder of the year.

### ***Working Capital***

Our working capital requirements are primarily generated from temporary employee payroll and customer accounts receivable. Since receipts from customers generally lag payroll to temporary employees, working capital requirements increase substantially in periods of growth.

### ***Customers***

We are not dependent on any single customer or a limited segment of customers. In 2016, an estimated 51% of total Company revenue was attributed to 100 large customers. Our largest single customer accounted for approximately five percent of total revenue in 2016.

### ***Government Contracts***

Although we conduct business under various federal, state, and local government contracts, no single one accounts for more than three percent of total Company revenue in 2016.

### ***Competition***

The worldwide temporary staffing industry is competitive and highly fragmented. In the United States, approximately 100 competitors operate nationally, and approximately 10,000 smaller companies compete in varying degrees at local levels. Additionally, several similar staffing companies compete globally. In 2016, our largest competitors were Adecco S.A., Randstad Holding N.V., ManpowerGroup Inc., Allegis Group and Recruit Holdings.

Key factors that influence our success are quality of service, price and breadth of service.

Quality of service is highly dependent on the availability of qualified, competent talent, and our ability to recruit, screen, train, retain and manage a pool of employees who match the skills required by particular customers. During an economic downturn, we must balance competitive pricing pressures with the need to retain a qualified workforce. Price competition in the staffing industry is intense, particularly for office clerical and light industrial personnel, and pricing pressure from customers and competitors continues to be significant.

Breadth of service, or ability to manage staffing suppliers, has become more critical as customers seek a single supplier to manage all their staffing needs. Kelly's talent supply chain management approach seeks to address this requirement for our larger customers, enabling us to deliver talent wherever and whenever they need it around the world.

### ***Environmental Concerns***

Because we are involved in a service business, federal, state or local laws that regulate the discharge of materials into the environment do not materially impact us.

### ***Employees***

We employ approximately 1,100 people at our corporate headquarters in Troy, Michigan, and approximately 6,400 staff members in our U.S. and international network of branch offices. In 2016, we assigned nearly 500,000 temporary employees to a variety of customers around the globe.

While services may be provided inside the facilities of customers, we remain the employer of record for our temporary employees. We retain responsibility for employee assignments, the employer's share of all applicable payroll taxes and the administration of the employee's share of these taxes.

### **Foreign Operations**

For information regarding sales, earnings from operations and long-lived assets by domestic and foreign operations, please refer to the information presented in the Segment Disclosures note to our consolidated financial statements, presented in Part II, Item 8 of this report.

### **Access to Company Information**

We electronically file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the Securities and Exchange Commission ("SEC"). The public may read and copy any of the reports that are filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

We make available, free of charge, through our website, and by responding to requests addressed to our vice president of investor relations, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports. These reports are available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website address is: [www.kellyservices.com](http://www.kellyservices.com). The information contained on our website, or on other websites linked to our website, is not part of this report.

## **ITEM 1A. RISK FACTORS.**

### **We operate in a highly competitive industry with low barriers to entry and may be unable to compete successfully against existing or new competitors.**

The worldwide staffing services market is highly competitive with limited barriers to entry. We compete in global, national, regional and local markets with full-service and specialized temporary staffing and consulting companies. While the majority of our competitors are significantly smaller than us, several competitors, including Adecco S.A., Randstad Holding N.V., ManpowerGroup Inc., Allegis Group and Recruit Holdings, are considerably larger than we are and have more substantial marketing and financial resources. Additionally, the emergence of online staffing platforms or other forms of disintermediation may pose a competitive threat to our services, which operate under a more traditional staffing business model. Price competition in the staffing industry is intense, particularly for the provision of office clerical and light industrial personnel. We expect that the level of competition will remain high, which could limit our ability to maintain or increase our market share or profitability.

The number of customers distributing their staffing service purchases among a broader group of competitors continues to increase which, in some cases, may make it more difficult for us to obtain new customers, or to retain or maintain our current share of business, with existing customers. We also face the risk that our current or prospective customers may decide to provide similar services internally. As a result, there can be no assurance that we will not encounter increased competition in the future.

### **Our business is significantly affected by fluctuations in general economic conditions.**

Demand for staffing services is significantly affected by the general level of economic activity and employment in the United States and the other countries in which we operate. When economic activity increases, temporary employees are often added before full-time employees are hired. As economic activity slows, however, many companies reduce their use of temporary employees before laying off full-time employees. Significant swings in economic activity historically have had a disproportionate impact on staffing industry volumes. We may also experience more competitive pricing pressure during periods of economic downturn. A substantial portion of our revenues and earnings are generated by our business operations in the United States. Any significant economic downturn in the United States or certain other countries in which we operate could have a material adverse effect on our business, financial condition and results of operations.

### **Technological advances may significantly disrupt the labor market and weaken demand for human capital at a rapid rate.**

Our success is directly dependent on our customers' demands for talent. As technology continues to evolve, more tasks currently performed by people may be replaced by automation, robotics, machine learning, artificial intelligence and other technological advances outside of our control. This trend poses a risk to the staffing industry as a whole, particularly in lower-skill job categories that may be more susceptible to such replacement.

### **We may not achieve the intended effects of our business strategy.**

Our business strategy focuses on driving growth in higher margin specialties in our OCG segment and in Americas PT. We have made targeted investments, adjusted our operating models and increased the resources necessary for driving sustainable growth within our targeted higher-margin solutions. If we are unsuccessful in executing our strategy, we may not achieve either our stated goal of strong revenue growth or the intended productivity improvements, which could negatively impact profitability.

### **We are at risk of damage to our brand, which is important to our success.**

Our success depends, in part, on the goodwill associated with our brand. Because we assign employees to work under the direction and supervision of our customer at work locations not under Kelly's control, we are at risk of our employees engaging in unauthorized conduct that could harm our reputation. Our Kelly Educational Staffing product is particularly susceptible to this exposure. An occurrence that damages Kelly's reputation could cause the loss of current and future customers, additional regulatory scrutiny and liability to third parties.

### **Our intellectual property assets could be infringed upon or compromised, and there are limitations to our ability to protect against such events.**

Our success is dependent in part on our proprietary business processes, our intellectual property and our thought leadership. To protect those rights, we depend upon protections afforded by the laws of the various countries in which we operate, as well as

contractual language and our own enforcement initiatives. These defenses may not be sufficient to fully protect us or to deter infringement or other misappropriation of our trade secrets and other intellectual property. In addition, third parties may challenge the validity or enforceability of our intellectual property rights. We also face the risk that third parties may allege that the operation of our business infringes or otherwise misappropriates intellectual property rights that they own or license. Losses or claims of this nature could cause us to incur significant expense, harm our reputation, reduce our competitive advantages or prevent us from offering certain services or solutions. The remedies available to us may be limited or leave us without full compensation.

**If we fail to successfully develop new service offerings, we may be unable to retain our current customers and gain new customers and our revenues would decline.**

The process of developing new service offerings requires accurate anticipation of customers' changing needs and emerging technological trends. This may require that we make long-term investments and commit significant resources before knowing whether these investments will eventually result in service offerings that achieve customer acceptance and generate the revenues required to provide desired returns. If we fail to accurately anticipate and meet our customers' needs through the development of new service offerings, our competitive position could be weakened and that could materially adversely affect our results of operations and financial condition.

**As we increasingly offer services outside the realm of traditional staffing, including business process outsourcing, we are exposed to additional risks which could have a material adverse effect on our business.**

Our business strategy focuses on growing our outsourcing and consulting business, including business process outsourcing, where we provide operational management of our customers' non-core functions or departments. This could expose us to certain risks unique to that business, including product liability or product recalls. Although we have internal vetting processes intended to control such risks, there is no assurance that these processes will be effective. Additionally, while we maintain insurance in types and amounts we believe are appropriate in light of the aforementioned exposures, there can also be no assurance that such insurance policies will remain available on reasonable terms or be sufficient in amount or scope of coverage.

**We are increasingly dependent on third parties for the execution of critical functions.**

We do not maintain our own vendor management technology, and we have outsourced certain other critical applications or business processes to external providers, including cloud-based services. We have elected to enter into supplier partnerships rather than establishing or maintaining our own operations in some of the territories where our customers require our services. We do not maintain a controlling interest in our expanded staffing joint venture in Asia Pacific (TS Kelly Asia Pacific) and have elected to rely on the joint venture to provide certain back office and administrative services to our OCG operations in the region. The failure or inability to perform on the part of one or more of these critical suppliers or partners could cause significant disruptions and increased costs.

**Past and future acquisitions may not be successful.**

From time to time, we acquire and invest in companies throughout the world. Acquisitions involve a number of risks, including the diversion of management's attention from its existing operations, the failure to retain key personnel or customers of an acquired business, the failure to realize anticipated benefits such as cost savings and revenue enhancements, the potentially substantial transaction costs associated with acquisitions, the assumption of unknown liabilities of the acquired business and the inability to successfully integrate the business into our operations. Potential impairment losses could result if we overpay for an acquisition. There can be no assurance that any past or future acquired businesses will generate anticipated revenues or earnings.

**Investments in equity affiliates expose us to additional risks and uncertainties.**

We participate, or may participate in the future, in certain investments in equity affiliates, such as joint ventures or other equity investments with strategic partners, including TS Kelly Asia Pacific. These arrangements expose us to a number of risks, including the risk that the management of the combined venture may not be able to fulfill their performance obligations under the management agreements or that the joint venture parties may be incapable of providing the required financial support. Additionally, improper, illegal or unethical actions by the venture management could have a negative impact on the reputation of the venture and our company.



**A loss of major customers or a change in such customers' buying behavior could have a material adverse effect on our business.**

Our business strategy is focused on serving large corporate customers through high volume global service agreements. While our strategy is intended to enable us to increase our revenues and earnings from our major corporate customers, the strategy also exposes us to increased risks arising from the possible loss of major customer accounts. The deterioration of the financial condition or business prospects of these customers could reduce their need for staffing and OCG services and result in a significant decrease in the revenues and earnings we derive from these customers. Continuing merger and acquisition activity involving our large corporate customers could put existing business at risk or impose additional pricing pressures. Since receipts from customers generally lag payroll to temporary employees, the bankruptcy of a major customer could have a material adverse impact on our ability to meet our working capital requirements. Additionally, most of our customer contracts can be terminated by the customer on short notice without penalty. This creates uncertainty with respect to the revenues and earnings we may recognize with respect to our customer contracts.

Our business with large customer accounts reflects a market-driven shift in buying behaviors in which reliance on a small number of staffing partners has shifted to reliance upon outsourced workforce solutions. The movement from single-sourced to competitively sourced staffing contracts may also substantially reduce our future revenues from such customers. While Kelly has sought to address this trend with the adoption of talent supply chain strategies, including providing CWO services within our OCG segment, we may not be selected or retained as the CWO service provider by our large customers. This may result in a material decrease in the revenue we derive from providing staffing services to such customers.

Our business with the federal government and government contractors presents additional risk considerations. We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts. Failure to meet these obligations could result in civil penalties, fines, suspension of payments, reputational damage, disqualification from doing business with government agencies and other sanctions or adverse consequences. Government procurement practices may change in ways that impose additional costs or risks upon us or pose a competitive disadvantage. Our employees may be unable to obtain or retain the security clearances necessary to conduct business under certain contracts, or we could lose or be unable to secure or retain a necessary facility clearance. Government agencies may temporarily or permanently lose funding for awarded contracts, or there could be delays in the start-up of projects already awarded and funded.

**We conduct a significant portion of our operations outside of the United States and we are subject to risks relating to our international business activities, including fluctuations in currency exchange rates and numerous legal and regulatory requirements.**

We conduct our business in most major staffing markets throughout the world. Our operations outside the United States are subject to risks inherent in international business activities, including:

- fluctuations in currency exchange rates;
- restrictions or limitations on the transfer of funds;
- government intrusions including asset seizures, expropriations or de facto control;
- varying economic and political conditions;
- differences in cultures and business practices;
- differences in employment and tax laws and regulations;
- differences in accounting and reporting requirements;
- differences in labor and market conditions;
- changing and, in some cases, complex or ambiguous laws and regulations;
- violations of U.S. Foreign Corrupt Practices Act and similar anti-corruption laws; and
- litigation and claims.

Our operations outside the United States are reported in the applicable local currencies and then translated into U.S. dollars at the applicable currency exchange rates for inclusion in our consolidated financial statements. Exchange rates for currencies of these countries may fluctuate in relation to the U.S. dollar and these fluctuations may have an adverse or favorable effect on our operating results when translating foreign currencies into U.S. dollars.

**We depend on our ability to attract, develop and retain qualified permanent full-time employees to lead complex talent supply chain sales solutions.**

As we aim to expand the number of clients adopting a talent supply chain management approach in order to support our OCG growth strategy, we are highly reliant on individuals who possess specialized knowledge and skills to lead complex talent supply chain sales and operations. There can be no assurance that qualified personnel will continue to be available. Our success is increasingly dependent on our ability to attract, develop and retain these experts.

**We depend on our ability to attract and retain qualified temporary personnel (employed directly by us or through third-party suppliers).**

We depend on our ability to attract qualified temporary personnel who possess the skills and experience necessary to meet the staffing requirements of our customers. We must continually evaluate our base of available qualified personnel to keep pace with changing customer needs. Competition for individuals with proven professional skills is intense, and demand for these individuals is expected to remain strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available in sufficient numbers and on terms of employment acceptable to us and our customers. Our success is substantially dependent on our ability to recruit and retain qualified temporary personnel.

**We may be exposed to employment-related claims and losses, including class action lawsuits and collective actions, which could have a material adverse effect on our business.**

We employ and assign personnel in the workplaces of other businesses. The risks of these activities include possible claims relating to:

- discrimination and harassment;
- wrongful termination or retaliation;
- violations of employment rights related to employment screening or privacy issues;
- apportionment between us and our customer of legal obligations as an employer of temporary employees;
- classification of workers as employees or independent contractors;
- employment of unauthorized workers;
- violations of wage and hour requirements;
- retroactive entitlement to employee benefits, including health insurance;
- failure to comply with leave policy requirements; and
- errors and omissions by our temporary employees, particularly for the actions of professionals such as attorneys, accountants, teachers and scientists.

We are also subject to potential risks relating to misuse of customer proprietary information, misappropriation of funds, death or injury to our employees, damage to customer facilities due to negligence of temporary employees, criminal activity and other similar occurrences. We may incur fines and other losses or negative publicity with respect to these risks. In addition, these occurrences may give rise to litigation, which could be time-consuming and expensive. In the U.S. and certain other countries in which we operate, new employment and labor laws and regulations have been proposed or adopted that may increase the potential exposure of employers to employment-related claims and litigation. In addition, such laws and regulations are arising with increasing frequency at the state and local level in the U.S and the resulting inconsistency in such laws and regulations results in additional complexity. There can be no assurance that the corporate policies and practices we have in place to help reduce our exposure to these risks will be effective or that we will not experience losses as a result of these risks. Although we maintain insurance in types and amounts we believe are appropriate in light of the aforementioned exposures, there can also be no assurance that such insurance policies will remain available on reasonable terms or be sufficient in amount or scope of coverage. Additionally, should we have a material inability to produce records as a consequence of litigation or a government investigation, the cost or consequences of such matters could become much greater.

**A failure to maintain the privacy of information entrusted to us could have significant adverse consequences.**

In the normal course of business we control, we process or have access to personal information regarding our own employees or employment candidates, as well as that of many of our customers or managed suppliers. Information concerning our employees and candidates may also reside in systems controlled by third parties for purposes such as employee benefits and payroll administration. The legal and regulatory environment concerning data privacy is becoming more complex and challenging, and the potential consequences of non-compliance have become more severe. Any failure to protect such personal information from inappropriate access or disclosure, whether through social engineering or by accident or other cause, could have severe consequences including fines, litigation, regulatory sanctions including loss of our status as a subscriber to the EU-U.S. Privacy Shield Framework, reputational damage and loss of customers or employees. Although we have a program designed to preserve the privacy of the personal data that we control or process, as well as personal data that we entrust to third parties, there can be no assurance that our program will meet all current and future regulatory requirements, anticipate all potential methods of unauthorized access, or prevent all inappropriate disclosures. Our insurance coverage may not be sufficient to cover all such costs or consequences, and there can be no assurance that any insurance that we now maintain will remain available under acceptable terms.

**Cyber attacks or other breaches of network or information technology security could have an adverse effect on our systems, services, reputation and financial results.**

We rely upon multiple information technology systems and networks, some of which are web-based or managed by third parties, to process, transmit and store electronic information and to manage or support a variety of critical business processes and activities. Our networks and applications are increasingly accessed from locations and by devices not within our physical control, and the specifics of our technology systems and networks may vary by geographic region. In the course of ordinary business, we may store or process proprietary or confidential information concerning our business and financial performance and current, past or prospective employees, customers, vendors and managed suppliers. The secure and consistent operation of these systems, networks and processes is critical to our business operations. Moreover, our temporary employees may be exposed to, or have access to, similar information in the course of their customer assignments. We routinely experience cyber attacks, which may include the use of malware, computer viruses, social engineering schemes and other means of attempted disruption or unauthorized access.

The actions we take to reduce the risk of impairments to our operations or systems and breaches of confidential or proprietary data may not be sufficient to prevent or repel future cyber events or other impairments of our networks or information technologies. An event involving the destruction, modification, accidental or unauthorized release, or theft of sensitive information from systems related to our business, or an attack that results in damage to or unavailability of our key technology systems or those of critical vendors, could result in damage to our reputation, fines, regulatory sanctions or interventions, contractual or financial liabilities, additional compliance and remediation costs, loss of employees or customers, loss of payment card network privileges, operational disruptions and other forms of costs, losses or reimbursements, any of which could materially adversely affect our operations or financial condition. Our cyber security and business continuity plans may not be effective in anticipating, preventing and effectively responding to all potential cyber risk exposures. Our insurance coverage may not be sufficient to cover all such costs or consequences, and there can be no assurance that any insurance that we now maintain will remain available under acceptable terms.

**Damage to our key data centers could affect our ability to sustain critical business applications.**

Many business processes critical to our continued operation are housed in our data center situated within the corporate headquarters complex as well as regional data centers in Asia-Pacific and Europe. Those processes include, but are not limited to, payroll, customer reporting and order management. While we have taken steps to protect these operations and have developed remote recovery capabilities, the loss of a data center would create a substantial risk of business interruption which could have a material adverse effect on our business, financial condition and results of operations.

**Our information technology projects may not yield their intended results.**

We have a number of information technology projects in process or in the planning stages, including improvements to applicant onboarding and tracking systems, order management, and improvements to financial processes such as billing and accounts payable through system consolidation and upgrades. Although the technology is intended to increase productivity and operating efficiencies, these projects may not yield their intended results. Any delays in completing, or an inability to successfully complete, these technology initiatives or an inability to achieve the anticipated efficiencies could adversely affect our operations, liquidity and financial condition. In addition, our information technology investments and strategy may not provide the ability to keep up with evolving industry trends and customer expectations which could weaken our competitive position. We also do not currently utilize a single enterprise resource planning system, which limits our ability and increases the amount of investment and effort necessary to provide global service integration to our customers.

**Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting.**

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal controls over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could have a negative effect on our stock price.

**Impairment charges relating to our goodwill and long-lived assets could adversely affect our results of operations.**

We regularly monitor our goodwill and long-lived assets for impairment indicators. In conducting our goodwill impairment testing, we compare the fair value of each of our reporting units with goodwill to the related net book value. In conducting our impairment analysis of long-lived assets, we compare the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. Changes in economic or operating conditions impacting our estimates and assumptions could result in the impairment of our goodwill or long-lived assets. In the event that we determine that our goodwill or long-lived assets are impaired, we may be required to record a significant non-cash charge to earnings that could adversely affect our results of operations.

**Unexpected changes in claim trends on our workers' compensation, unemployment, disability and medical benefit plans may negatively impact our financial condition.**

We self-insure, or otherwise bear financial responsibility for, a significant portion of expected losses under our workers' compensation program, disability and medical benefits claims. Unexpected changes in claim trends, including the severity and frequency of claims, actuarial estimates and medical cost inflation, could result in costs that are significantly different than initially reported. If future claims-related liabilities increase due to unforeseen circumstances, or if we must make unfavorable adjustments to accruals for prior accident years, our costs could increase significantly. In addition, unemployment insurance costs are dependent on benefit claims experience from employees which may vary from current levels and result in increased costs. There can be no assurance that we will be able to increase the fees charged to our customers in a timely manner and in a sufficient amount to cover increased costs as a result of any changes in claims-related liabilities.

**Our business is subject to extensive government regulation, which may restrict the types of employment services we are permitted to offer or result in additional or increased taxes, including payroll taxes or other costs that reduce our revenues and earnings.**

The temporary employment industry is heavily regulated in many of the countries in which we operate. Changes in laws or government regulations may result in prohibition or restriction of certain types of employment services we are permitted to offer or the imposition of new or additional benefit, licensing or tax requirements that could reduce our revenues and earnings. In particular, we are subject to state unemployment taxes in the U.S., which typically increase during periods of increased levels of unemployment. We also receive benefits, such as the work opportunity income tax credit in the U.S., that regularly expire and may not be reinstated. There can be no assurance that we will be able to increase the fees charged to our customers in a timely manner and in a sufficient amount to fully cover increased costs as a result of any changes in laws or government regulations. Any future changes in laws or government regulations, or interpretations thereof, including additional laws and regulations enacted at a local level may make it more difficult or expensive for us to provide staffing services and could have a material adverse effect on our business, financial condition and results of operations.

**We may have additional tax or unclaimed property liabilities that exceed our estimates.**

We are subject to a multitude of federal, state and local taxes in the jurisdictions we operate in, including the tax provisions of the U.S. Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. We are also subject to unclaimed or abandoned property (escheat) laws. Our tax expense could be materially impacted by changes in tax laws in these jurisdictions, changes in the valuation of deferred tax assets and liabilities or changes in the mix of income by country. The demographics of our workforce and the visibility of our industry may make it more likely we become a target of government investigations, and we are regularly subject to audit by tax authorities. Although we believe our tax and unclaimed property estimates are reasonable, the final determination of audits and any related litigation could be materially different from our historical tax provisions and accruals. The results of an audit or litigation could materially harm our business.

**Failure to maintain specified financial covenants in our bank credit facilities, or credit market events beyond our control, could adversely restrict our financial and operating flexibility and subject us to other risks, including risk of loss of access to capital markets.**

Our bank credit facilities contain covenants that require us to maintain specified financial ratios and satisfy other financial conditions. During 2016, we met all of the covenant requirements. Our ability to continue to meet these financial covenants, particularly with respect to interest coverage (see Debt footnote in the notes to our consolidated financial statements), may not be assured. If we default under this or any other of these requirements, the lenders could declare all outstanding borrowings, accrued interest and fees to be due and payable or significantly increase the cost of the facility. In these circumstances, there can be no assurance that we would have sufficient liquidity to repay or refinance this indebtedness at favorable rates or at all. Events beyond our control could result in the failure of one or more of our banks, reducing our access to liquidity and potentially resulting in reduced financial and operating flexibility. If broader credit markets were to experience dislocation, our potential access to other funding sources would be limited.

**Our controlling stockholder exercises voting control over our company and has the ability to elect or remove from office all of our directors.**

Terence E. Adderley, the Executive Chairman and Chairman of the Board of our board of directors, and certain trusts with respect to which he acts as trustee or co-trustee, control approximately 93% of the outstanding shares of Kelly Class B common stock, which is the only class of our common stock entitled to voting rights. Mr. Adderley is therefore able to exercise voting control with respect to all matters requiring stockholder approval, including the election or removal from office of all members of the Board of Directors.

**We are not subject to certain of the listing standards that normally apply to companies whose shares are quoted on the NASDAQ Global Market.**

Our Class A and Class B common stock are quoted on the NASDAQ Global Market. Under the listing standards of the NASDAQ Global Market, we are deemed to be a “controlled company” by virtue of the fact that Terence E. Adderley, the Executive Chairman and Chairman of the Board of our board of directors, and certain trusts of which he acts as trustee or co-trustee have voting power with respect to more than fifty percent of our outstanding voting stock. A controlled company is not required to have a majority of its board of directors comprised of independent directors. Director nominees are not required to be selected or recommended for the board’s selection by a majority of independent directors or a nominations committee comprised solely of independent directors, nor do the NASDAQ Global Market listing standards require a controlled company to certify the adoption of a formal written charter or board resolution, as applicable, addressing the nominations process. A controlled company is also exempt from NASDAQ Global Market’s requirements regarding the determination of officer compensation by a majority of independent directors or a compensation committee comprised solely of independent directors. A controlled company is required to have an audit committee composed of at least three directors who are independent as defined under the rules of both the Securities and Exchange Commission and the NASDAQ Global Market. The NASDAQ Global Market further requires that all members of the audit committee have the ability to read and understand fundamental financial statements and that at least one member of the audit committee possess financial sophistication. The independent directors must also meet at least twice a year in meetings at which only they are present.

We currently comply with certain of the listing standards of the NASDAQ Global Market that do not apply to controlled companies. Our compliance is voluntary, however, and there can be no assurance that we will continue to comply with these standards in the future.

**Provisions in our certificate of incorporation and bylaws and Delaware law may delay or prevent an acquisition of our company.**

Our restated certificate of incorporation and bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors. For example, if a potential acquirer were to make a hostile bid for us, the acquirer would not be able to call a special meeting of stockholders to remove our board of directors or act by written consent without a meeting. The acquirer would also be required to provide advance notice of its proposal to replace directors at any annual meeting, and would not be able to cumulate votes at a meeting, which would require the acquirer to hold more shares to gain representation on the board of directors than if cumulative voting were permitted.

Our board of directors also has the ability to issue additional shares of common stock which could significantly dilute the ownership of a hostile acquirer. In addition, Section 203 of the Delaware General Corporation Law limits mergers and other business combination transactions involving 15 percent or greater stockholders of Delaware corporations unless certain board or stockholder approval requirements are satisfied. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation.

Our board of directors could choose not to negotiate with an acquirer that it did not believe was in our strategic interests. If an acquirer is discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by these or other measures, our shareholders could lose the opportunity to sell their shares at a favorable price.

**The holders of shares of our Class A common stock are not entitled to voting rights.**

Under our certificate of incorporation, the holders of shares of our Class A common stock are not entitled to voting rights, except as otherwise required by Delaware law. As a result, Class A common stock holders do not have the right to vote for the election of directors or in connection with most other matters submitted for the vote of our stockholders.

**Our stock price may be subject to significant volatility and could suffer a decline in value.**

The market price of our common stock may be subject to significant volatility. We believe that many factors, including several which are beyond our control, have a significant effect on the market price of our common stock. These include:

- actual or anticipated variations in our quarterly operating results;
- announcements of new services by us or our competitors;
- announcements relating to strategic relationships or acquisitions;
- changes in financial estimates by securities analysts;
- changes in general economic conditions;
- actual or anticipated changes in laws and government regulations;
- commencement of, or involvement in, litigation;
- any major change in our board or management;
- changes in industry trends or conditions; and
- sales of significant amounts of our common stock or other securities in the market.

In addition, the stock market in general, and the NASDAQ Global Market in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of listed companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of our management's attention and resources. Further, our operating results may be below the expectations of securities analysts or investors. In such event, the price of our common stock may decline.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

We own our headquarters in Troy, Michigan, where corporate, subsidiary and divisional offices are currently located. The original headquarters building was purchased in 1977. Headquarters operations were expanded into additional buildings purchased in 1991, 1997 and 2001.

The combined usable floor space in the headquarters complex is approximately 345,000 square feet. Our buildings are in good condition and are currently adequate for their intended purpose and use. We also own undeveloped land in Troy and northern Oakland County, Michigan.

Branch office business is conducted in leased premises with the majority of leases being fixed for terms of generally three to five years in the U.S. and Canada and five to ten years outside the U.S. and Canada. We own virtually all of the office furniture and the equipment used in our corporate headquarters and branch offices.

**ITEM 3. LEGAL PROCEEDINGS.**

The Company is a party to a pending nationwide class action lawsuit entitled Hillson et.al. v Kelly Services. The suit alleges that current and former temporary employees of Kelly Services are entitled to monetary damages for violation of the Fair Credit Reporting Act requirement that the notice and disclosure form provided to employees for purposes of conducting a background screening be a standalone document. On April 20, 2016, the parties entered into a formal settlement agreement. The parties still must secure court approval of the settlement. In light of amounts previously expensed and anticipated recoveries from third parties, Kelly recorded an accrual in the fourth quarter of 2015 of \$4.1 million (in accounts payable and accrued liabilities on the consolidated balance sheet) to reflect the expected cost of the tentative settlement.

The Company is continuously engaged in litigation arising in the ordinary course of its business, such as matters alleging employment discrimination, alleging wage and hour violations or enforcing the restrictive covenants in the Company's employment agreements. The Company has recently experienced an increase in its litigation volume, including cases where claimants seek class action certification. While there is no expectation that any of these matters will have a material adverse effect on the Company's results of operations, financial position or cash flows, litigation is always subject to inherent uncertainty and the Company is not able to reasonably predict if any matter will be resolved in a manner that is materially adverse to the Company.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### **Market Information and Dividends**

Our Class A and Class B common stock is traded on the NASDAQ Global Market under the symbols "KELYA" and "KELYB," respectively. The high and low selling prices for our Class A common stock and Class B common stock as quoted by the NASDAQ Global Market and the dividends paid on the common stock for each quarterly period in the last two fiscal years are reported in the table below. Our ability to pay dividends is subject to compliance with certain financial covenants contained in our debt facilities, as described in the Debt footnote in the notes to our consolidated financial statements.

	Per share amounts (in dollars)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<b>2016</b>					
Class A common					
High	\$ 19.73	\$ 20.15	\$ 20.98	\$ 23.61	\$ 23.61
Low	14.63	17.81	18.01	18.06	14.63
Class B common					
High	18.04	20.00	21.60	27.80	27.80
Low	15.43	15.04	17.23	17.75	15.04
Dividends	0.05	0.075	0.075	0.075	0.275
<b>2015</b>					
Class A common					
High	\$ 18.22	\$ 17.86	\$ 15.82	\$ 17.51	\$ 18.22
Low	15.10	14.66	13.47	13.67	13.47
Class B common					
High	17.96	N/A <sup>(1)</sup>	15.38	17.42	17.96
Low	15.85	N/A <sup>(1)</sup>	13.20	12.24	12.24
Dividends	0.05	0.05	0.05	0.05	0.20

(1) No trading in the Company's Class B common shares was reported for the applicable period.

#### **Holders**

The number of holders of record of our Class A and Class B common stock were approximately 4,000 and 200, respectively, as of February 3, 2017.

#### **Recent Sales of Unregistered Securities**

None.



### Issuer Purchases of Equity Securities

During the fourth quarter of 2016, we reacquired shares of our Class A common stock as follows:

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs</u>
October 3, 2016 through November 6, 2016	237	\$ 18.32	—	—
November 7, 2016 through December 4, 2016	196	20.24	—	—
December 5, 2016 through January 1, 2017	—	—	—	—
<b>Total</b>	<b>433</b>	<b>\$ 19.19</b>	<b>—</b>	<b>—</b>

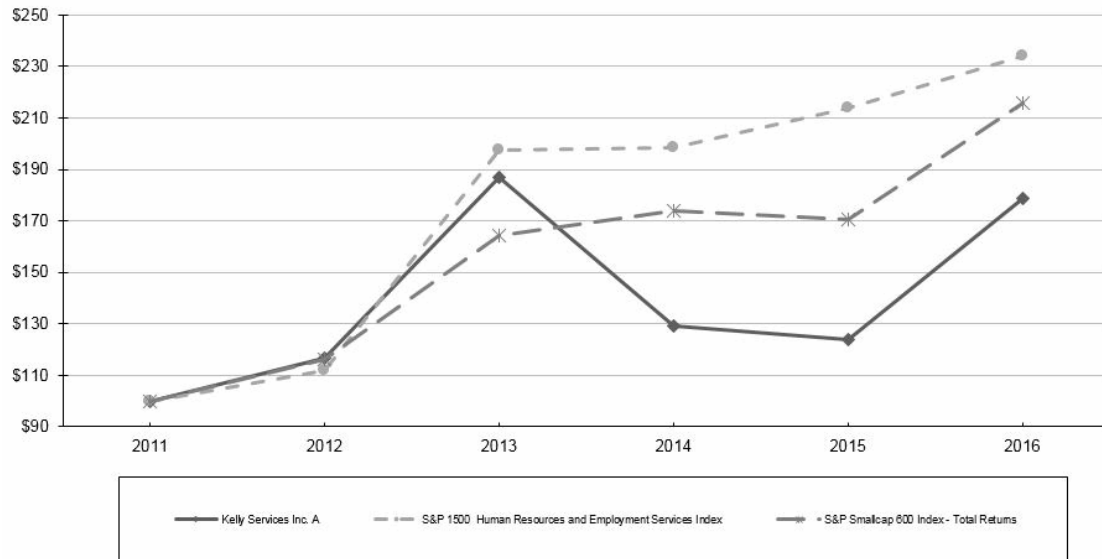
(in millions of dollars)

We may reacquire shares sold to cover taxes due upon the vesting of restricted stock held by employees. Accordingly, 433 shares were reacquired during the Company's fourth quarter.

**Performance Graph**

The following graph compares the cumulative total return of our Class A common stock with that of the S&P 600 SmallCap Index and the S&P 1500 Human Resources and Employment Services Index for the five years ended December 31, 2016. The graph assumes an investment of \$100 on December 31, 2011 and that all dividends were reinvested.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**  
**Assumes Initial Investment of \$100**  
**December 31, 2011 – December 31, 2016**



	2011	2012	2013	2014	2015	2016
Kelly Services, Inc.	\$ 100.00	\$ 116.77	\$ 187.04	\$ 129.07	\$ 123.98	\$ 178.64
S&P SmallCap 600 Index	\$ 100.00	\$ 116.33	\$ 164.38	\$ 173.84	\$ 170.41	\$ 215.67
S&P 1500 Human Resources and Employment Services Index	\$ 100.00	\$ 111.95	\$ 197.57	\$ 198.28	\$ 214.06	\$ 234.28

**ITEM 6. SELECTED FINANCIAL DATA.**

The following table summarizes selected financial information of Kelly Services, Inc. and its subsidiaries for each of the most recent five fiscal years. This table should be read in conjunction with the other financial information, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements included elsewhere in this report. The statement of earnings data for the 2013 and 2012 fiscal years as well as the balance sheet data as of 2014, 2013 and 2012 are derived from consolidated financial statements previously on file with the SEC.

(In millions except per share amounts)	2016	2015 <sup>(1)</sup>	2014	2013	2012
Revenue from services	\$ 5,276.8	\$ 5,518.2	\$ 5,562.7	\$ 5,413.1	\$ 5,450.5
Earnings from continuing operations <sup>(2)</sup>	63.2	53.8	23.7	58.9	49.7
Gain on investment in TS Kelly Asia Pacific <sup>(3)</sup>	87.2	—	—	—	—
Earnings (loss) from discontinued operations, net of tax <sup>(4)</sup>	—	—	—	—	0.4
Net earnings	120.8	53.8	23.7	58.9	50.1
<b>Basic earnings per share:</b>					
Earnings from continuing operations	3.10	1.39	0.61	1.54	1.31
Earnings (loss) from discontinued operations	—	—	—	—	0.01
Net earnings	3.10	1.39	0.61	1.54	1.32
<b>Diluted earnings per share:</b>					
Earnings from continuing operations	3.08	1.39	0.61	1.54	1.31
Earnings (loss) from discontinued operations	—	—	—	—	0.01
Net earnings	3.08	1.39	0.61	1.54	1.32
<b>Dividends per share</b>					
Classes A and B common	0.275	0.20	0.20	0.20	0.20
Working capital <sup>(5)</sup>	443.5	411.3	428.1	474.5	470.3
Total assets	2,028.1	1,939.6	1,917.9	1,798.6	1,635.7
Total noncurrent liabilities	245.0	228.4	224.1	214.0	172.4

- (1) Fiscal year included 53 weeks.
- (2) Included in results of continuing operations are asset impairments of \$1.7 million in 2013 and \$3.1 million in 2012.
- (3) Represents the fair value of the Company's investment in TS Kelly Asia Pacific in addition to the cash received less the carrying value of assets transferred to the joint venture.
- (4) Discontinued operations represent adjustments to assets and liabilities retained from the 2007 sale of Kelly Home Care.
- (5) Working capital is calculated as current assets minus current liabilities.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **Executive Overview**

#### **The Workforce Solutions Industry**

The staffing industry has changed dramatically over the last decade — transformed by globalization, competitive consolidation and secular shifts in labor supply and demand. Global employment trends are reshaping and redefining traditional employment models, sourcing strategies and human resource capability requirements. In response, the industry has accelerated its evolution from commercial into professional/technical and outsourced solutions.

The broader workforce solutions industry has continued to evolve to meet businesses' growing demand for total workforce or talent supply chain management ("TSCM") solutions. As clients' workforce solutions strategies move up the maturity model, the TSCM concept seeks to manage all categories of talent (temporary, project-based, outsourced and full-time) and thus represents significant market potential.

Strategic clients are increasingly looking for global, flexible and holistic talent solutions that encompass all worker categories, driving adoption of our TSCM approach covering temporary staffing, Contingent Workforce Outsourcing ("CWO"), Recruitment Process Outsourcing ("RPO"), Business Process Outsourcing ("BPO"), independent contractor management, strategic workforce planning and more.

Across all regions, the structural shifts toward higher-skilled, project-based professional/technical talent continue to represent long-term opportunities for the industry. In fact, professional/technical staffing is projected to increase as a percent of the global market, with demand for specialty staffing projected to outpace commercial.

#### **Our Business**

Kelly Services is a global workforce solutions company, serving customers of all sizes in a variety of industries. Our staffing operations are divided into three regions (Americas, EMEA and APAC), with commercial and professional/technical staffing businesses in each region. As the human capital arena has become more complex, we have also developed a suite of innovative solutions within our global Outsourcing & Consulting Group (OCG). OCG delivers integrated talent management solutions to meet customer needs across the entire spectrum of talent categories. Using talent supply chain strategies, we help customers plan for and manage their acquisition of contingent and full-time labor, and gain access to service providers and quality talent at competitive rates with minimized risk. In July 2016, we transferred our APAC Commercial and APAC PT staffing operations to TS Kelly Asia Pacific, an expanded joint venture with our long-time partner, Temp Holdings. OCG in the APAC region remains wholly Kelly-owned and continues to provide holistic workforce solutions throughout the APAC region.

We earn revenues from the hourly sales of services by our temporary employees to customers, as a result of recruiting permanent employees for our customers, and through our outsourcing activities. Our working capital requirements are primarily generated from temporary employee payroll and customer accounts receivable. The nature of our business is such that trade accounts receivable are our most significant asset. Average days sales outstanding varies within and outside the U.S., but is 53 days on a global basis as of the 2016 year end. Since receipts from customers generally lag temporary employee payroll, working capital requirements increase substantially in periods of growth.

#### **Our Strategy and Outlook**

Our long-term strategic objective is to create shareholder value by delivering a competitive profit from the best workforce solutions and talent in the industry. To achieve this, we are focused on the following key areas:

- Maintain our core strengths in commercial staffing in key markets;
- Grow our professional and technical solutions;
- Enhance our position as a market-leading provider of talent supply chain management in our OCG segment; and
- Lower our costs through deployment of efficient service delivery models.

2016 was a year of progress as we pursued this strategy. Even in the face of slowing revenue, we improved on several important key performance indicators, including improving our conversion rate and free cash flow. In addition, we raised the cash dividend for our shareholders based on our confidence in our execution and completed the expansion of our joint venture with Temp Holdings, forming one of the largest workforce solutions companies in the Asia-Pacific region, TS Kelly Asia Pacific. We are running our staffing operations more tightly in line with growth expectations, and we took actions during the

second quarter of 2016 in the Americas and EMEA to increase operational efficiency. In OCG, we continued to expand our global client portfolio even as we invest for future growth.

Our 2016 results confirm our growth strategy:

- Earnings from operations for the full year of 2016 totaled \$63.2 million, or \$66.6 million excluding restructuring expenses, compared to \$66.7 million in 2015.
- Our OCG segment delivered gross profit growth of nearly 12% and we continued to add resources in line with the increased market demand for outsourced solutions with tempered earnings growth in 2016. OCG earned a full-year operating profit of \$25.9 million, compared to \$28.5 million last year.
- Conversion rate, or return on gross profit, continues to be a key metric to measure our drive for profitable growth. Our 2016 conversion rate was 7.0%, or 7.4% excluding restructuring expenses, compared to 7.2% in 2015
- Cash from operating activities and free cash flow generation increased year over year and we ended the year with no outstanding debt.

Kelly remains focused on executing our strategy with increased speed and precision, making the necessary investments and adjustments to advance that strategy. We have set our sights on becoming an even more focused, consultative and profitable company, and we are reshaping our business to make that vision a reality. We will continue to rebalance our resources to align with our goals for growth, intentionally focusing more of our workforce in roles that drive increased revenue and gross profit for the Company. We will primarily measure our progress against gross profit growth and an improved conversion rate. The goals we have established are based on the current economic and business environment, and may change as conditions warrant:

- We expect to grow PT and OCG revenue, creating a more balanced portfolio that yields benefits from an improved mix.
- We expect Commercial to remain a core component of our strategy.
- We expect to exercise strict control over our cost base, delivering structural improvements that create strong operating leverage.
- And, as a result, we expect our conversion rate to continue to improve.

Looking ahead, we are keeping a watchful eye on demand levels in the U.S. labor market while anticipating an increasing demand for skilled workers. Despite uncertainties, we know that companies are relying more heavily on the use of flexible staffing models; there is growing acceptance of free agents and contractual employment by companies and talent alike; and companies are seeking more comprehensive workforce management solutions that lend themselves to Kelly's talent supply chain management approach. This shift in demand for contingent labor and strategic solutions plays to our strengths and experience — particularly serving large companies whose needs span the globe and cross multiple labor categories.

## **Financial Measures**

The constant currency (“CC”) change amounts in the following tables refer to the year-over-year percentage changes resulting from translating 2016 financial data into U.S. dollars using the same foreign currency exchange rates used to translate financial data for 2015. We believe that CC measurements are a useful measure, indicating the actual trends of our operations without distortion due to currency fluctuations. We use CC results when analyzing the performance of our segments and measuring our results against that of our competitors. Additionally, substantially all of our foreign subsidiaries derive revenues and incur cost of services and selling, general and administrative expenses (“SG&A”) within a single country and currency which, as a result, provide a natural hedge against currency risks in connection with their normal business operations.

CC measures are non-GAAP (Generally Accepted Accounting Principles) measures and are used to supplement measures in accordance with GAAP. Our non-GAAP measures may be calculated differently from those provided by other companies, limiting their usefulness for comparison purposes. Non-GAAP measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

Return on sales (earnings from operations divided by revenue from services) and conversion rate (earnings from operations divided by gross profit) in the following tables are ratios used to measure the Company’s operating efficiency.

Days sales outstanding (“DSO”) represents the numbers days that sales remain unpaid for the period being reported. DSO is calculated by dividing average net sales per day (net sales excluding secondary supplier expense for a rolling three-month period) into trade accounts receivable, net at the period end.

Free cash flow measures the Company’s ability to generate the cash flow in excess of that used to maintain operations. Free cash flow is calculated by subtracting capital expenditures from cash flows from operating activities.

## **Staffing Fee-Based Income**

Staffing fee-based income, which is included in revenue from services in the following tables, has a significant impact on gross profit rates. There are very low direct costs of services associated with staffing fee-based income. Therefore, increases or decreases in staffing fee-based income can have a disproportionate impact on gross profit rates.

**Results of Operations**  
**2016 versus 2015**

**Total Company**  
(Dollars in millions)

	<b>2016</b> <b>(52 Weeks)</b>	<b>2015</b> <b>(53 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 5,276.8	\$ 5,518.2	(4.4)%	(3.2)%
Staffing fee-based income	58.5	65.3	(10.3)	(8.3)
Gross profit	906.3	920.3	(1.5)	(0.5)
SG&A expenses excluding restructuring charges	839.7	853.6	(1.6)	(0.7)
Restructuring charges	3.4	—	NM	NM
Total SG&A expenses	843.1	853.6	(1.2)	(0.3)
Earnings from operations	63.2	66.7	(5.2)	
Gross profit rate	17.2%	16.7%	0.5 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	15.9	15.5	0.4	
% of gross profit	92.6	92.8	(0.2)	
Return on sales	1.2	1.2	—	
Conversion rate	7.0	7.2	(0.2)	

Total Company results of operations for 2016 were impacted by the transfer of APAC staffing and certain APAC OCG businesses to the TS Kelly Asia Pacific joint venture in the third quarter of 2016. Accordingly, separate APAC results for 2016 and 2015 are not presented in the following discussions due to the lack of comparability between the periods.

Total Company revenue from services for 2016 was down 4.4% in comparison to the prior year on a reported basis, and down 3.2% on a CC basis due, in part, to the transfer of the APAC operations and as more fully described in the following discussions. See Segment Disclosures footnote in the notes to our consolidated financial statements for the impact of this transfer on year-over-year segment results. In addition, the 2015 fiscal year included a 53rd week. This fiscal leap year occurs every five or six years and is necessary to align the fiscal and calendar periods. The 53rd week added approximately 1% to 2015 revenue.

The gross profit rate increased 50 basis points year over year. The transfer of the APAC businesses, which had lower gross profit rates than the Company average, accounted for 10 basis points of the increase. Additionally, as more fully described in the following discussions, increases in the Americas and OCG gross profit rates were partially offset by a decline in the gross profit rate in the EMEA region.

Total SG&A expenses decreased 1.2% on a reported basis and 0.3% on a CC basis. Included in SG&A expenses are restructuring charges of \$3.4 million, which relate to actions taken in the Americas and EMEA regions to manage operating expenses and prepare the businesses for future growth. The year-over-year decrease in SG&A expenses reflects the transfer of APAC operations to the joint venture, decreases in expense in our staffing operations and savings from reductions in performance-based compensation expenses. These decreases were partially offset by an increase in OCG SG&A expenses due to current and expected growth in that segment.

Income tax expense for 2016 was \$30.0 million, compared to \$8.7 million for 2015. Our tax expense is affected by recurring items, such as the amount of pretax income and its mix by jurisdiction, U.S. work opportunity credits and the change in cash surrender value of non-taxable investments in life insurance policies. It is also affected by discrete items that may occur in any given period but are not consistent from period to period, such as tax law changes, or changes in judgment regarding the realizability of deferred tax assets. The increase in income tax expense from the prior year is primarily due to tax expense of \$23.5 million from the gain on the investment in TS Kelly Asia Pacific, the impact of which is partially offset by a \$2.1 million benefit from the release of valuation allowances in Italy.

Diluted earnings per share for 2016 were \$3.08, as compared to \$1.39 for 2015.

**Total Americas**  
(Dollars in millions)

	<b>2016</b> (52 Weeks)	<b>2015</b> (53 Weeks)	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 3,495.1	\$ 3,576.2	(2.3)%	(1.5)%
Staffing fee-based income	32.6	32.1	1.4	2.0
Gross profit	565.1	565.3	—	0.6
SG&A expenses excluding restructuring charges	454.9	456.6	(0.4)	0.1
Restructuring charges	2.2	—	NM	
Total SG&A expenses	457.1	456.6	0.1	0.6
Earnings from operations	108.0	108.7	(0.6)	
Gross profit rate	16.2%	15.8%	0.4	pts.
Expense rates (excluding restructuring charges):				
% of revenue	13.0	12.8	0.2	
% of gross profit	80.5	80.8	(0.3)	
Return on sales	3.1	3.0	0.1	

The decrease in reported Americas revenue from services was due to a 3% decrease in hours volume, partially offset by a 1% increase in average bill rates (a 2% increase on a CC basis). The decrease in hours volume is due, in part, to the 53rd week in 2015, which added approximately 1% to 2015 revenue in Americas. The remainder of the decrease reflected decreased volume in accounts in our centrally delivered service model. The increase in average bill rates was primarily due to wage inflation and the resulting impact on the bill rate. Americas represented 66% of total Company revenue in 2016 and 65% in 2015.

Revenue in our Commercial segment decreased 2% on a reported basis and decreased 1% on a CC basis in comparison to the prior year. The decrease in CC revenue in Commercial was primarily due to the 53rd week in 2015. Additionally, we experienced lower demand from customers in our centrally delivered service model. These decreases were partially offset by increases in our educational staffing business from new customer wins, as well as increases in our light industrial business in our branch-based model.

In the PT segment, reported and CC revenue decreased 3% in comparison to the prior year. PT revenue was down 4% in accounts serviced by our centralized delivery model due to decreased customer demand and the continued shift in buying behavior of those customers from single-sourced arrangements to a more competitively sourced model. PT revenue was up 2% in accounts serviced by our branch-based delivery model due primarily to increases in new customer wins and customer projects throughout the year.

The increase in the gross profit rate was primarily due to improved management of our payroll taxes, partially offset by higher workers' compensation and employee benefit costs, and the negative impact of customer mix.

Total SG&A expenses increased 0.1% on a reported basis and 0.6% on a CC basis. Included in SG&A expenses are restructuring charges of \$2.2 million. These charges represent severance costs related to headcount reductions as well as lease buyout costs due to branch consolidations.



**Total EMEA**  
(Dollars in millions)

	<b>2016</b> <b>(52 Weeks)</b>	<b>2015</b> <b>(53 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 938.1	\$ 945.0	(0.7)%	1.9%
Staffing fee-based income	23.2	23.3	(0.1)	3.1
Gross profit	138.1	143.2	(3.5)	(1.4)
SG&A expenses excluding restructuring charges	123.7	129.2	(4.2)	(1.6)
Restructuring charges	1.2	—	NM	
Total SG&A expenses	124.9	129.2	(3.3)	(0.7)
Earnings from operations	13.2	14.0	(5.9)	
Gross profit rate	14.7%	15.2%	(0.5) pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.2	13.7	(0.5)	
% of gross profit	89.6	90.2	(0.6)	
Return on sales	1.4	1.5	(0.1)	

The change in reported EMEA revenue from services was due to a 3% decrease in average bill rates (flat on a CC basis), partially offset by a 2% increase in hours volume. The increase in hours volume was primarily due to increased customer demand in Portugal. EMEA represented 18% of total Company revenue in 2016 and 17% in 2015. The 53rd week in 2015 added approximately 1% to 2015 revenue in EMEA.

The EMEA gross profit rate decrease was mainly driven by unfavorable customer mix in Switzerland. Staffing fee-based income increased primarily in Western Europe, partially offset by a decrease in the U.K.

Total SG&A expenses decreased 3.3% on a reported basis and 0.7% on a CC basis, primarily due to effective cost control in headquarters expenses across the region. Included in SG&A expenses are restructuring charges of \$1.2 million, which reflect a repositioning of the operating model to pursue growth in staffing fee-based income and specialized temporary staffing business in Italy.

**OCG**  
(Dollars in millions)

	<b>2016</b> <b>(52 Weeks)</b>	<b>2015</b> <b>(53 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 706.4	\$ 673.8	4.8%	5.3%
Gross profit	179.3	160.6	11.6	12.3
Total SG&A expenses	153.4	132.1	16.2	17.1
Earnings from operations	25.9	28.5	(9.7)	
Gross profit rate	25.4%	23.8%	1.6 pts.	
Expense rates:				
% of revenue	21.7	19.6	2.1	
% of gross profit	85.6	82.2	3.4	
Return on sales	3.7	4.2	(0.5)	

Revenue from services in the OCG segment increased during 2016 due primarily to growth in the BPO and RPO practice areas. Revenue in BPO grew by 9% year over year and RPO grew 4% year over year. This revenue growth was due primarily to the expansion of programs with existing customers and, to a lesser extent, new customers. OCG revenue represented 13% of total Company revenue in 2016 and 12% in 2015. The 53rd week in 2015 added approximately 1% to 2015 revenue in OCG.

The OCG gross profit rate increased primarily due to an increased gross profit rates in BPO, RPO and CWO as a result of customer and practice area mix.

The increase in SG&A expenses was primarily a result of costs related to additional sales resources, costs associated with increased volume with existing customers and implementation of new business, including salaries and performance-based compensation, and bad debt expense. The bad debt expense was primarily related to certain aged accounts receivable at a subsidiary in Germany.

**Results of Operations**  
**2015 versus 2014**

**Total Company**  
(Dollars in millions)

	<b>2015</b> <b>(53 Weeks)</b>	<b>2014</b> <b>(52 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 5,518.2	\$ 5,562.7	(0.8)%	4.7%
Staffing fee-based income	65.3	76.5	(14.5)	(4.8)
Gross profit	920.3	908.4	1.3	6.4
SG&A expenses excluding restructuring charges	853.6	874.5	(2.4)	2.2
Restructuring charges	—	12.0	(100.0)	(100.0)
Total SG&A expenses	853.6	886.5	(3.7)	0.8
Earnings from operations	66.7	21.9	206.2	
Gross profit rate	16.7%	16.3%	0.4 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	15.5	15.7	(0.2)	
% of gross profit	92.8	96.3	(3.5)	
Return on sales	1.2	0.4	0.8	
Conversion rate	7.2	2.4	4.8	

Total Company revenue from services for 2015 was down 0.8% in comparison to 2014, primarily as a result of currency fluctuations. During 2015, the U.S. dollar strengthened against certain currencies, primarily the Euro, Russian ruble and the Australian dollar, compared to 2014. On a CC basis, total Company revenue increased 4.7% year over year, as more fully described in the following discussions. The 2015 fiscal year included a 53rd week. This fiscal leap year occurs every five or six years and is necessary to align the fiscal and calendar periods. The 53rd week added approximately 1% to 2015 reported and CC revenue.

The gross profit rate increased 40 basis points on a year-over-year basis. As more fully described in the following discussions, an increase in the Americas region gross profit rate was partially offset by declines in the gross profit rate in EMEA, APAC and OCG.

SG&A expenses excluding restructuring costs decreased 2.4% year over year, reflecting the impact of changes in foreign currency exchange rates. On a CC basis, SG&A expenses increased 2.2% due to higher expenses in our U.S. branch-based and OCG businesses and higher corporate litigation-related expenses. These increases were partially offset by the cost savings of our management simplification restructuring plan ("Plan"), and continued cost management efforts in EMEA and APAC. Restructuring charges in 2014 include \$9.9 million related to the Plan, \$0.8 million of costs incurred for exiting the staffing business in Sweden and \$1.3 million related to closing branches in Australia and consolidating back office functions in Australia and New Zealand.

Income tax expense for 2015 was \$8.7 million, compared to a benefit of \$7.1 million for 2014. Our tax expense is affected by recurring items, such as the amount of pretax income and its mix by jurisdiction, U.S. work opportunity credits, and the change in cash surrender value of non-taxable investments in life insurance policies. It is also affected by discrete items that may occur in any given year but are not consistent from year to year, such as tax law changes, or changes in judgment regarding the realizability of deferred tax assets. The 2015 year-over-year increase in income tax expense is primarily due to increased pretax income. The work opportunity credit program was extended through 2019 in the fourth quarter of 2015 and retroactively applied to 2015, providing stability for this item.

Diluted earnings per share for 2015 were \$1.39, as compared to \$0.61 for 2014.

**Total Americas**  
(Dollars in millions)

	2015 (53 Weeks)	2014 (52 Weeks)	Change	CC Change
Revenue from services	\$ 3,576.2	\$ 3,565.6	0.3%	2.0%
Staffing fee-based income	32.1	30.0	7.2	9.0
Gross profit	565.3	535.5	5.5	7.1
Total SG&A expenses	456.6	446.8	2.2	3.7
Earnings from operations	108.7	88.7	22.7	
Gross profit rate	15.8%	15.0%	0.8 pts.	
Expense rates:				
% of revenue	12.8	12.5	0.3	
% of gross profit	80.8	83.5	(2.7)	
Return on sales	3.0	2.5	0.5	

The increase in reported Americas revenue from services was due to a 2% increase in hours worked, offset by a 2% decrease in average bill rates. Average bill rates were flat on a constant currency basis. The increase in hours worked was due to increases in our local branch network customer activity. Americas represented 65% of total Company revenue in 2015 and 64% in 2014. The 53rd week added approximately 1% to 2015 reported and CC revenue in Americas.

Revenue in our Commercial segment was flat and up 2% on a CC basis in comparison to the prior year. The increase in CC revenue in Commercial was primarily due to increases in our educational staffing business, as a result of new customer wins, and in our light industrial product, due to increased demand at existing customer locations, coupled with additional new customer wins. Light industrial business is up primarily in accounts serviced through our branch-based delivery model. Volume in our large accounts using our centralized delivery model is down as a result of our exit from certain large accounts due to pricing discipline and the reduced revenue from our natural resources customers related to lower oil prices.

In the PT segment, reported and CC revenue was up 2% in comparison to the prior year. Increases in accounts serviced through our branch delivery model more than offset the decreases in accounts for customers services through the centralized delivery model. Revenue has increased in our science and finance products, while revenue in our engineering product decreased primarily due to the completion of certain projects. IT revenue, specifically in the centralized delivery model, is down mainly due to customers moving from a traditional staffing model to an outsourced model delivered by our OCG business. On an overall basis, we have seen a shift in the buying behavior of our large centrally delivered customers from single-sourced arrangements to a more competitively sourced model, which puts pressure on revenue in accounts serviced in our centralized delivery model.

The increase in the gross profit rate was primarily due to improved management of our payroll taxes and employee benefit costs, coupled with improved pricing in our U.S. branch network and overall customer mix.

The increase in SG&A expenses is attributable to the increased incentive costs and compensation in our local branch network, partially offset by the impact of the Plan we implemented in the fourth quarter of last year.

**Total EMEA**  
(Dollars in millions)

	<b>2015</b> <b>(53 Weeks)</b>	<b>2014</b> <b>(52 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 945.0	\$ 1,085.0	(12.9)%	3.4%
Staffing fee-based income	23.3	30.8	(24.5)	(7.1)
Gross profit	143.2	173.5	(17.5)	(1.7)
SG&A expenses excluding restructuring charges	129.2	160.6	(19.6)	(5.0)
Restructuring charges	—	0.8	(100.0)	(100.0)
Total SG&A expenses	129.2	161.4	(20.0)	(5.5)
Earnings from operations	14.0	12.1	16.1	
Gross profit rate	15.2%	16.0%	(0.8) pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.7	14.8	(1.1)	
% of gross profit	90.2	92.5	(2.3)	
Return on sales	1.5	1.1	0.4	

The decrease in reported EMEA revenue from services was primarily due to the impact of changes in foreign currency exchange rates. The increase in CC revenue from services was due to a 7% increase in hours, partially offset by a 3% decrease in average bill rates on a CC basis, combined with a decrease in staffing fee-based income. The increase in hours was due primarily to higher hours volume in Portugal and France, partially offset by a reduction of hours volume with larger customers in Switzerland. The decrease in average bill rates was due primarily to increasing revenue in Portugal, a country with lower average bill rates. EMEA represented 17% of total Company revenue in 2015 and 20% in 2014. The 53rd week added approximately 1% to 2015 reported and CC revenue in EMEA.

The EMEA gross profit rate decreased primarily due to a decline in the temporary gross profit rate and a decline in staffing fee-based income. Staffing fee-based income declined in both Commercial and PT, primarily in Russia, partially offset by increases in staffing fee-based income in some other countries. Economic conditions in Russia continue to be challenging, resulting in the decline in staffing fee-based income. The decrease in the temporary gross profit rate was primarily driven by unfavorable country mix, as described above.

SG&A expenses decreased due to cost saving actions taken in 2015, primarily in Switzerland, Norway and the U.K., and the exit of staffing operations in Sweden. Restructuring costs recorded in 2014 reflect costs incurred for exiting the staffing business in Sweden.

**Total APAC**  
(Dollars in millions)

	<b>2015</b> <b>(53 Weeks)</b>	<b>2014</b> <b>(52 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 387.7	\$ 392.2	(1.1)%	12.9%
Staffing fee-based income	11.6	15.7	(25.5)	(16.3)
Gross profit	55.8	60.2	(7.4)	5.2
SG&A expenses excluding restructuring charges	46.7	56.4	(17.0)	(5.9)
Restructuring charges	—	1.3	(100.0)	(100.0)
Total SG&A expenses	46.7	57.7	(19.0)	(8.1)
Earnings from operations	9.1	2.5	261.6	
Gross profit rate	14.4%	15.4%	(1.0) pts.	
Expense rates (excluding restructuring charges):				
% of revenue	12.1	14.4	(2.3)	
% of gross profit	83.9	93.6	(9.7)	
Return on sales	2.3	0.6	1.7	

The reported change in total APAC revenue from services was primarily due to the impact of changes in foreign currency exchange rates. The increase in revenue from services on a CC basis was primarily due to a 13% increase in hours worked, primarily in India. Average bill rates declined 11% on a reported basis and increased 1% on a CC basis. APAC revenue represented 7% of total Company revenue in both 2015 and 2014. The 53rd week in fiscal 2015 did not have a material impact on reported and CC revenue in APAC.

The gross profit rate declined due to decreases in the staffing fee-based income and the temporary gross profit rate, partially offset by higher-than-expected wage credits in Singapore. The reduction in the temporary gross profit rate was due to an increased proportion of large accounts with lower margins. Staffing fee-based income decreased due mainly to a weaker hiring climate in Australia and Singapore. Singapore wage credits include additional prior year credits received in the current year, and totaled \$5.2 million in 2015 and \$2.2 million in 2014.

The decrease in SG&A expenses excluding restructuring charges was due to continuing productivity improvements primarily achieved by consolidating the Australia and New Zealand operations in the prior year. Restructuring charges in 2014 relate to costs for exiting branches in Australia and consolidating back office functions in Australia and New Zealand.

**OCG**  
(Dollars in millions)

	<b>2015</b> <b>(53 Weeks)</b>	<b>2014</b> <b>(52 Weeks)</b>	<b>Change</b>	<b>CC</b> <b>Change</b>
Revenue from services	\$ 673.8	\$ 586.8	14.8 %	16.6%
Gross profit	160.6	143.6	11.9	14.2
Total SG&A expenses	132.1	127.3	3.7	6.4
Earnings from operations	28.5	16.3	75.8	
Gross profit rate	23.8%	24.5%	(0.7) pts.	
<b>Expense rates (excluding restructuring charges):</b>				
% of revenue	19.6	21.7	(2.1)	
% of gross profit	82.2	88.7	(6.5)	
Return on sales	4.2	2.8	1.4	

Revenue from services in the OCG segment increased during 2015 due primarily to growth in the BPO and CWO practice areas. Revenue in BPO grew by 25% year over year and CWO, which includes PPO, grew by 17% year over year. The revenue growth in BPO and CWO was due to the expansion of programs with existing customers and, to a lesser extent, new customers. OCG revenue represented 12% of total Company revenue in 2015 and 11% in 2014. The 53rd week added approximately 1% to 2015 reported and CC revenue in OCG.

The OCG gross profit rate decrease is due to practice area mix, as our lower margin BPO and PPO businesses experienced strong volume growth. While both BPO and PPO experienced margin increases in addition to strong revenue growth, it was insufficient to offset the margin decline and volume contraction in the higher margin RPO business. RPO experienced volume and margin decline mainly due to customers in the oil and gas industry.

The increase in SG&A expenses was primarily a result of costs associated with increased volume with existing customers and implementation costs of new customers mainly in our CWO and KellyConnect practice areas.

## **Results of Operations Financial Condition**

Historically, we have financed our operations through cash generated by operating activities and access to credit markets. Our working capital requirements are primarily generated from temporary employee payroll and customer accounts receivable. Since receipts from customers generally lag payroll to temporary employees, working capital requirements increase substantially in periods of growth. Conversely, when economic activity slows, working capital requirements may substantially decrease. As highlighted in the consolidated statements of cash flows, our liquidity and available capital resources are impacted by four key components: cash and equivalents, operating activities, investing activities and financing activities.

### ***Cash and Equivalents***

Cash and equivalents totaled \$29.6 million at year-end 2016, compared to \$42.2 million at year-end 2015. As further described below, during 2016, we generated \$37.4 million of cash from operating activities, generated \$10.3 million of cash from investing activities and used \$66.9 million in cash for financing activities. The decrease in balance of cash and equivalents from 2015 to 2016 is due to effective cash management.

### ***Operating Activities***

In 2016, we generated \$37.4 million of net cash from operating activities, as compared to generating \$23.5 million in 2015 and using \$70.0 million in 2014. The change from 2015 to 2016 was primarily due to lower growth in trade accounts receivable. The change from 2014 to 2015 was primarily due to lower growth in trade accounts receivable and improving net earnings.

Trade accounts receivable totaled \$1.1 billion at both year-end 2016 and 2015. Global DSO for the fourth quarter were 53 days for 2016, compared to 54 days for 2015.

Our working capital position was \$443.5 million at year-end 2016, an increase of \$32.2 million from year-end 2015. The current ratio (total current assets divided by total current liabilities) was 1.6 at year-end 2016 and 1.5 at year-end 2015.

### ***Investing Activities***

In 2016, we generated \$10.3 million of net cash from investing activities, compared to using \$17.6 million in 2015 and \$27.2 million in 2014. Included in cash from investing activities is \$23.3 million of net cash representing the cash received less the cash deconsolidated relating to the TS Kelly Asia Pacific joint venture transaction. Capital expenditures, which totaled \$12.7 million in 2016, \$16.9 million in 2015 and \$21.7 million in 2014, were primarily related to the Company's technology programs. The decrease reflects the Company's increased use of externally hosted technology platforms.

Investment in TS Kelly equity affiliate represents cash contributions in 2015 and 2014 to TS Kelly Workforce Solutions, our equity affiliate in which we had a 49% ownership interest. In 2014, the amount included \$4.8 million for the acquisition of a China-based staffing company by TS Kelly.

### ***Financing Activities***

In 2016, we used \$66.9 million of cash for financing activities, as compared to using \$42.2 million in 2015 and generating \$56.6 million in 2014. Changes in net cash from financing activities are primarily related to short-term borrowing activities. We had no debt at year-end 2016 compared to \$55.5 million at year-end 2015. Debt-to-total capital is a common ratio to measure the relative capital structure and leverage of the Company. Our ratio of debt-to-total capital (total debt reported on the balance sheet divided by total debt plus stockholders' equity) was 0.0% at year-end 2016 and 5.8% at year-end 2015.

In 2016 and 2015, the net change in short-term borrowings was primarily due to payments on our U.S. securitization facility. In 2014, the net change in short-term borrowings was primarily due to \$60.0 million in additional borrowings on our securitization facility, used to fund our everyday operations, and \$3.5 million in borrowings under the revolving line of credit in Brazil.

Dividends paid per common share were \$0.275 in 2016 and \$0.20 in 2015 and 2014. Payments of dividends are restricted by the financial covenants contained in our debt facilities. Details of this restriction are contained in the Debt footnote in the notes to our consolidated financial statements.



### Contractual Obligations and Commercial Commitments

Summarized below are our obligations and commitments to make future payments as of year-end 2016:

	Payment due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
	(In millions of dollars)				
Operating leases	\$ 65.5	\$ 25.3	\$ 29.4	\$ 9.9	\$ 0.9
Short-term borrowings	—	—	—	—	—
Accrued insurance	68.9	23.4	21.3	9.0	15.2
Accrued retirement benefits	170.7	13.6	27.6	27.2	102.3
Other long-term liabilities	5.8	0.9	1.5	1.3	2.1
Uncertain income tax positions	1.6	0.4	0.3	0.4	0.5
Purchase obligations	25.7	23.6	2.1	—	—
<b>Total</b>	<b>\$ 338.2</b>	<b>\$ 87.2</b>	<b>\$ 82.2</b>	<b>\$ 47.8</b>	<b>\$ 121.0</b>

Purchase obligations above represent unconditional commitments relating primarily to online tools and voice and data communications services which we expect to utilize generally within the next two fiscal years, in the ordinary course of business. We have no material, unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities.

### Liquidity

We expect to meet our ongoing short-term and long-term cash requirements principally through cash generated from operations, available cash and equivalents, securitization of customer receivables and committed unused credit facilities. Additional funding sources could include public or private bonds, asset-based lending, additional bank facilities, issuance of equity or other sources.

We utilize intercompany loans, dividends, capital contributions and redemptions to effectively manage our cash on a global basis. We periodically review our foreign subsidiaries' cash balances and projected cash needs. As part of those reviews, we may identify cash that we feel should be repatriated to optimize the Company's overall capital structure. As of the 2016 year end, these reviews have not resulted in any specific plans to repatriate a majority of our international cash balances. We expect much of our international cash will be needed to fund working capital growth in our local operations. The majority of our international cash is concentrated in a cash pooling arrangement (the "Cash Pool") and is available to fund general corporate needs internationally. The Cash Pool is a set of cash accounts maintained with a single bank that must, as a whole, maintain at least a zero balance; individual accounts may be positive or negative. This allows countries with excess cash to invest and countries with cash needs to utilize the excess cash.

We manage our cash and debt very closely to optimize our capital structure. As our cash balances build, we tend to pay down debt as appropriate. Conversely, when working capital needs grow, we tend to use corporate cash and cash available in the Cash Pool first, and then access our borrowing facilities.

At year-end 2016, we had \$150.0 million of available capacity on our \$150.0 million revolving credit facility and \$149.6 million of available capacity on our \$200.0 million securitization facility. The securitization facility had no short-term borrowings and \$50.4 million of standby letters of credit related to workers' compensation. Together, the revolving credit and securitization facilities provide the Company with committed funding capacity that may be used for general corporate purposes. While we believe these facilities will cover our working capital needs over the short term, if economic conditions or operating results change significantly, we may need to seek additional sources of funds. Throughout 2016 and as of the 2016 year end, we met the debt covenants related to our revolving credit facility and securitization facility.

At year-end 2016, we also had additional unsecured, uncommitted short-term credit facilities totaling \$8.6 million, under which we had no borrowings. Details of our debt facilities as of the 2016 year end are contained in the Debt footnote in the notes to our consolidated financial statements.

We monitor the credit ratings of our major banking partners on a regular basis and have regular discussions with them. Based on our reviews and communications, we believe the risk of one or more of our banks not being able to honor commitments is insignificant. We also review the ratings and holdings of our money market funds and other investment vehicles regularly to ensure high credit quality and access to our invested cash.

### **Critical Accounting Estimates**

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. In this process, it is necessary for us to make certain assumptions and related estimates affecting the amounts reported in the consolidated financial statements and the attached notes. Actual results can differ from assumed and estimated amounts.

Critical accounting estimates are those that we believe require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Judgments and uncertainties affecting the application of those estimates may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following estimates to be most critical in understanding the judgments involved in preparing our consolidated financial statements.

#### ***Workers' Compensation***

In the U.S., we have a combination of insurance and self-insurance contracts under which we effectively bear the first \$1.0 million of risk per single accident. There is no aggregate limitation on our per-accident exposure under these insurance and self-insurance programs. We establish accruals for workers' compensation utilizing actuarial methods to estimate the undiscounted future cash payments that will be made to satisfy the claims, including an allowance for incurred-but-not-reported claims. Beginning in Q3 2016, we retained an independent consulting actuary to establish ultimate loss forecasts for the current and prior accident years of our insurance and self-insurance programs. Previously, we performed such analysis internally. The consulting actuary establishes loss development factors, based on our historical claims experience as well as industry experience, and applies those factors to current claims information to derive an estimate of our ultimate claims liability. In preparing the estimates, the consulting actuary also considers the nature, frequency and severity of the claims; reserving practices of our third party claims administrators; performance of our medical cost management and return to work programs; changes in our territory and business line mix; and current legal, economic and regulatory factors such as industry estimates of medical cost trends. Where appropriate, multiple generally accepted actuarial techniques are applied and tested in the course of preparing the loss forecast. We use the ultimate loss forecasts, as developed by the consulting actuary, to establish total expected program costs for each accident year by adding our estimates of non-loss costs such as claims handling fees and excess insurance premiums. When claims exceed the applicable loss limit or self-insured retention and realization of recovery of the claim from existing insurance policies is deemed probable, we record a receivable from the insurance company for the excess amount.

We evaluate the accrual regularly throughout the year and make adjustments as needed. The ultimate cost of these claims may be greater than or less than the established accrual. While we believe that the recorded amounts are reasonable, there can be no assurance that changes to our estimates will not occur due to limitations inherent in the estimation process. In the event we determine that a smaller or larger accrual is appropriate, we would record a credit or a charge to cost of services in the period in which we made such a determination. The accrual for workers' compensation, net of related receivables which are included in prepaid expenses and other current assets and other assets in the consolidated balance sheet, was \$59.7 million and \$57.3 million at year-end 2016 and 2015, respectively.

#### ***Income Taxes***

Income tax expense is based on expected income and statutory tax rates in the various jurisdictions in which we operate. Judgment is required in determining our income tax expense. We establish accruals for uncertain tax positions under generally accepted accounting principles, which require that a position taken or expected to be taken in a tax return be recognized in the consolidated financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) the position would be sustained upon examination by tax authorities who have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Our effective tax rate includes the impact of accruals and changes to accruals that we consider appropriate, as well as related interest and penalties. A number of years may lapse before a particular matter, for which we have or have not established an accrual, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals are appropriate under generally accepted accounting principles. Favorable or

unfavorable adjustments of the accrual for any particular issue would be recognized as an increase or decrease to our income tax expense in the period of a change in facts and circumstances. Our current tax accruals are presented in the consolidated balance sheet within income and other taxes and long-term tax accruals are presented in the consolidated balance sheet within other long-term liabilities.

Tax laws require items to be included in the tax return at different times than the items are reflected in the consolidated financial statements. As a result, the income tax expense reflected in our consolidated financial statements is different than the liability reported in our tax return. Some of these differences are permanent, which are not deductible or taxable on our tax return, and some are temporary differences, which give rise to deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our consolidated income statement. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent items for which we have already taken a deduction on our tax return, but have not yet recognized as expense in our consolidated financial statements. Our net deferred tax asset is recorded using currently enacted tax laws, and may need to be adjusted in the event tax laws change.

The U.S. work opportunity credit is allowed for wages earned by employees in certain targeted groups. The actual amount of creditable wages in a particular period is estimated, since the credit is only available once an employee reaches a minimum employment period and the employee's inclusion in a targeted group is certified by the applicable state. As these events often occur after the period the wages are earned, judgment is required in determining the amount of work opportunity credits accrued for in each period. We evaluate the accrual regularly throughout the year and make adjustments as needed.

### ***Goodwill***

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. Generally accepted accounting principles require that goodwill be tested for impairment at a reporting unit level. We have determined that our reporting units are the same as our operating and reportable segments. If we have determined it is more likely than not the fair value for one or more reporting units is greater than their carrying value, we may use a qualitative assessment for the annual impairment test.

In conducting the qualitative assessment, we assess the totality of relevant events and circumstances that affect the fair value or carrying value of the reporting unit. Such events and circumstances may include macroeconomic conditions, industry and competitive environment conditions, overall financial performance, reporting unit specific events and market considerations. We may also consider recent valuations of the reporting unit, including the magnitude of the difference between the most recent fair value estimate and the carrying value, as well as both positive and adverse events and circumstances, and the extent to which each of the events and circumstances identified may affect the comparison of a reporting unit's fair value with its carrying value.

For reporting units where the qualitative assessment is not used, goodwill is tested for impairment using a two-step process. In the first step, the estimated fair value of a reporting unit is compared to its carrying value. If the estimated fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is not considered impaired and no further testing is required. To derive the estimated fair value of reporting units, we primarily relied on an income approach. Under the income approach, estimated fair value is determined based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the reporting unit being measured. Estimated future cash flows are based on our internal projection model. Assumptions and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts.

If the carrying value of the net assets assigned to a reporting unit exceeds the estimated fair value of a reporting unit, a second step of the impairment test is performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill requires valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference.

We completed our annual impairment test for all reporting units with goodwill in the fourth quarter for the fiscal year ended 2016 and 2015 and determined that goodwill was not impaired. In 2016, we elected to perform a step one quantitative assessment for the Americas Commercial, Americas PT, and OCG reporting units. In 2015, we elected to perform a step one quantitative assessment for the Americas Commercial, Americas PT, OCG and APAC PT reporting units.

Our step one analysis used significant assumptions by segment, including: expected future revenue and expense growth rates, profit margins, cost of capital, discount rate and forecasted capital expenditures. Although we believe the assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. Different assumptions of the anticipated future results and growth from these businesses could result in an impairment charge, which would decrease operating income and result in lower asset values on our consolidated balance sheet. As a measure of sensitivity, all three reporting units have an estimated fair value that is at least double the carrying value in 2016. In addition, reducing our revenue growth rate assumptions by approximately 75% would not result in the estimated fair value falling below book value for all three reporting units.

At year-end 2016 and 2015, total goodwill amounted to \$88.4 million and \$90.3 million, respectively (see the Goodwill footnote in the notes to our consolidated financial statements).

#### ***Litigation***

Kelly is subject to legal proceedings and claims arising out of the normal course of business. Kelly routinely assesses the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses. A determination of the amount of the accruals required, if any, for these contingencies is made after analysis of each known issue. Development of the analysis includes consideration of many factors including: potential exposure, the status of proceedings, negotiations, discussions with our outside counsel, results of similar litigation and, in the case of class action lawsuits, participation rates. The required accruals may change in the future due to new developments in each matter. For further discussion, see the Contingencies footnote in the notes to our consolidated financial statements. At year-end 2016 and 2015, the gross accrual for litigation costs amounted to \$9.2 million and \$9.9 million, respectively, which are included in accounts payable and accrued liabilities in the consolidated balance sheet.

#### ***Allowance for Uncollectible Accounts Receivable***

We make ongoing estimates relating to the collectibility of our trade accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and apply percentages to certain aged receivable categories. We also make judgments about the creditworthiness of significant customers based on ongoing credit evaluations, and we monitor historical trends that might impact the level of credit losses in the future. Historically, losses from uncollectible accounts have not exceeded our allowance. Since we cannot predict with certainty future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger allowance may be required.

In the event we determined that a smaller or larger allowance was appropriate, we would record a credit or a charge to SG&A expenses in the period in which we made such a determination. In addition, for billing adjustments related to errors, service issues and compromises on billing disputes, we also include a provision for sales allowances, based on our historical experience, in our allowance for uncollectible accounts receivable. If sales allowances vary from our historical experience, an adjustment to the allowance may be required, and we would record a credit or charge to revenue from services in the period in which we made such a determination. As of year-end 2016 and 2015, the allowance for uncollectible accounts receivable was \$12.5 million and \$10.5 million, respectively.

## NEW ACCOUNTING PRONOUNCEMENTS

See New Accounting Pronouncements footnote in the notes to our consolidated financial statements presented in Part II, Item 8 of this report for a description of new accounting pronouncements.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” or variations or negatives thereof or by similar or comparable words or phrases. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by us that may be provided by management, including oral statements or other written materials released to the public, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about our Company and economic and market factors in the countries in which we do business, among other things. These statements are not guarantees of future performance, and we have no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, competitive market pressures including pricing and technology introductions and disruptions, changing market and economic conditions, our ability to achieve our business strategy, the risk of damage to our brand, the risk our intellectual property assets could be infringed upon or compromised, our ability to successfully develop new service offerings, our exposure to risks associated with services outside traditional staffing, including business process outsourcing, our increasing dependency on third parties for the execution of critical functions, the risks associated with past and future acquisitions, exposure to risks associated with investments in equity affiliates including TS Kelly Asia Pacific, material changes in demand from or loss of large corporate customers as well as changes in their buying practices, risks associated with conducting business in foreign countries, including foreign currency fluctuations, availability of full-time employees to lead complex talent supply chain sales and operations, availability of temporary workers with appropriate skills required by customers, liabilities for employment-related claims and losses, including class action lawsuits and collective actions, risks arising from failure to preserve the privacy of information entrusted to us or to meet our obligations under global privacy laws, the risk of cyber attacks or other breaches of network or information technology security, our ability to sustain critical business applications through our key data centers, our ability to effectively implement and manage our information technology programs, our ability to maintain adequate financial and management processes and controls, impairment charges triggered by adverse industry developments or operational circumstances, unexpected changes in claim trends on workers’ compensation, unemployment compensation, disability and medical benefit plans, the impact of changes in laws and regulations (including federal, state and international tax laws), the risk of additional tax or unclaimed property liabilities in excess of our estimates, our ability to maintain specified financial covenants in our bank facilities to continue to access credit markets, and other risks, uncertainties and factors discussed in this report and in our other filings with the Securities and Exchange Commission. Actual results may differ materially from any forward looking statements contained herein, and we have no intention to update these statements. Certain risk factors are discussed more fully under “Risk Factors” in Part I, Item 1A of this report.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are exposed to foreign currency risk primarily related to our foreign subsidiaries. Exchange rates impact the U.S. dollar value of our reported earnings, our investments in subsidiaries, local currency denominated borrowings and intercompany transactions with and between subsidiaries. Our foreign subsidiaries primarily derive revenues and incur expenses within a single country and currency which, as a result, provide a natural hedge against currency risks in connection with normal business operations. Accordingly, changes in foreign currency rates vs. the U.S. dollar generally do not impact local cash flows. Intercompany transactions which create foreign currency risk include services, royalties, loans, contributions and distributions.

In addition, we are exposed to interest rate risks through our use of the multi-currency line of credit and other borrowings. A hypothetical fluctuation of 10% of market interest rates would not have had a material impact on 2016 earnings.

Marketable equity investments, representing our available-for-sale investment in Temp Holdings, are stated at fair value and marked to market through stockholders' equity, net of tax. Impairments in value below historical cost, if any, deemed to be other than temporary, would be expensed in the consolidated statement of earnings. See the Fair Value Measurements footnote in the notes to our consolidated financial statements of this Annual Report on Form 10-K for further discussion.

We are exposed to market risk as a result of our obligation to pay benefits under our nonqualified deferred compensation plan and our related investments in company-owned variable universal life insurance policies. The obligation to employees increases and decreases based on movements in the equity and debt markets. The investments in mutual funds, as part of the company-owned variable universal life insurance policies, are designed to mitigate, but not eliminate, this risk with offsetting gains and losses.

Overall, our holdings and positions in market risk-sensitive instruments do not subject us to material risk.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The financial statements and supplementary data required by this Item are set forth in the accompanying index on page 45 of this filing and are presented in pages 46-78.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective at a reasonable assurance level.

**Management's Report on Internal Control Over Financial Reporting**

Management's report on internal control over financial reporting is presented preceding the consolidated financial statements on page 46 of this report.

**Attestation Report of Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP, independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of January 1, 2017, as stated in their report which appears herein.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

### PART III

Information required by Part III with respect to Directors, Executive Officers and Corporate Governance (Item 10), Executive Compensation (Item 11), Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters (Item 12), Certain Relationships and Related Transactions, and Director Independence (Item 13) and Principal Accounting Fees and Services (Item 14), except as set forth under the titles "Executive Officers of the Registrant", which is included on page 40, and "Code of Business Conduct and Ethics," which is included on page 41, (Item 10), and except as set forth under the title "Equity Compensation Plan Information," which is included on page 41, (Item 12), is to be included in a definitive proxy statement filed not later than 120 days after the close of our fiscal year and the proxy statement, when filed, is incorporated in this report by reference.

#### ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT.

The following individuals serve as executive officers of the Company as of January 1, 2017:

Name/Office	Age	Served as an Officer Since	Business Experience During Last 5 Years
Carl T. Camden President and Chief Executive Officer	62	1995	Served as officer of the Company.
George S. Corona Executive Vice President and Chief Operating Officer	58	2000	Served as officer of the Company.
Steven S. Armstrong Senior Vice President and General Manager, U.S. Operations	59	1994	Served as officer of the Company.
Teresa S. Carroll Senior Vice President and General Manager, Global Talent Solutions	51	2000	Served as officer of the Company.
Peter W. Quigley Senior Vice President, General Counsel and Chief Administrative Officer	55	2004	Served as officer of the Company.
Antonina M. Ramsey Senior Vice President and Chief Human Resources Officer	62	1992	Served as officer of the Company.
Natalia A. Shuman Senior Vice President and General Manager, EMEA Staffing and APAC OCG	43	2007	Served as officer of the Company.
Olivier G. Thiot Senior Vice President and and Chief Financial Officer	55	2008	Served as officer of the Company.
Laura S. Lockhart Vice President, Corporate Controller and Chief Accounting Officer	47	2008	Served as officer of the Company.



## CODE OF BUSINESS CONDUCT AND ETHICS.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions. The Code of Business Conduct and Ethics is included as Exhibit 14 in the Index to Exhibits on page 79. We have posted our Code of Business Conduct and Ethics on our website at [www.kellyservices.com](http://www.kellyservices.com). We intend to post any changes in or waivers from our Code of Business Conduct and Ethics applicable to any of these officers on our website.

## ITEM 12. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

### **Equity Compensation Plan Information**

The following table shows the number of shares of our Class A common stock that may be issued upon the exercise of outstanding options, warrants and rights, the weighted-average exercise price of outstanding options, warrants and rights, and the number of securities remaining available for future issuance under our equity compensation plans as of the fiscal year end for 2016.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) <sup>(2)</sup>
Equity compensation plans approved by security holders <sup>(1)</sup>	—	\$ —	2,759,351
Equity compensation plans not approved by security holders <sup>(3)</sup>	—	—	—
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>2,759,351</b>

- (1) The equity compensation plans approved by our stockholders include our Equity Incentive Plan, Non-Employee Directors Stock Option Plan and Non-Employee Directors Stock Plan.

The number of shares to be issued upon exercise of outstanding options, warrants and rights excludes 653,243 shares of restricted stock, 287,896 shares of financial measure performance awards earned but not yet vested, as well as 497,250 shares of financial measure performance awards and 415,750 shares of total shareholder return performance awards at maximum level (200%) granted to employees and not yet earned or vested at January 1, 2017.

- (2) The Equity Incentive Plan provides that the maximum number of shares available for grants, including stock options and restricted stock, is 15 percent of the outstanding Class A common stock, adjusted for plan activity over the preceding five years.

The Non-Employee Directors Stock Option Plan provides that the maximum number of shares available for settlement of options is 250,000 shares of Class A common stock.

The Non-Employee Directors Stock Plan provides that the maximum number of shares available for awards is one-quarter of one percent of the outstanding Class A common stock.

- (3) We have no equity compensation plans that have not been approved by our stockholders.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) The following documents are filed as part of this report:

(1) Financial statements:

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings for the three fiscal years ended January 1, 2017

Consolidated Statements of Comprehensive Income for the three fiscal years ended January 1, 2017

Consolidated Balance Sheets at January 1, 2017 and January 3, 2016

Consolidated Statements of Stockholders' Equity for the three fiscal years ended January 1, 2017

Consolidated Statements of Cash Flows for the three fiscal years ended January 1, 2017

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule -

For the three fiscal years ended January 1, 2017:

Schedule II - Valuation Reserves

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) The Exhibits are listed in the Index to Exhibits included beginning at page 79, which is incorporated herein by reference.

(b) The Index to Exhibits and required Exhibits are included following the Financial Statement Schedule beginning at page 79 of this filing.

(c) None.

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 17, 2017

KELLY SERVICES, INC.

Registrant

By /s/ Olivier G. Thiot

Olivier G. Thiot

Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 17, 2017

\* /s/ T. E. Adderley

T. E. Adderley

Executive Chairman and Chairman of the Board and Director

Date: February 17, 2017

\* /s/ C. T. Camden

C. T. Camden

President, Chief Executive Officer and Director

(Principal Executive Officer)

Date: February 17, 2017

\* /s/ C. M. Adderley

C. M. Adderley

Director

Date: February 17, 2017

\* /s/ R. S. Cubbin

R. S. Cubbin

Director

Date: February 17, 2017

\* /s/ J. E. Dutton

J. E. Dutton

Director

Date: February 17, 2017

\* /s/ T. B. Larkin

T. B. Larkin

Director

Date: February 17, 2017

\* /s/ C. L. Mallett, Jr.

C. L. Mallett, Jr.

Director

Date: February 17, 2017

\* /s/ L. A. Murphy

L. A. Murphy

Director

Date: February 17, 2017

\* /s/ D. R. Parfet

D. R. Parfet

Director

Date: February 17, 2017

\* /s/ H. Takahashi

H. Takahashi

Director

Date: February 17, 2017

\* /s/ B. J. White

B. J. White

Director



**SIGNATURES (continued)**

Date: February 17, 2017

/s/ O. G. Thiot

\_\_\_\_\_  
O. G. Thiot

Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: February 17, 2017

/s/ L. S. Lockhart

\_\_\_\_\_  
L. S. Lockhart

Vice President, Corporate Controller and Chief Accounting Officer  
(Principal Accounting Officer)

Date: February 17, 2017

\*By /s/ O.G. Thiot

\_\_\_\_\_  
O.G. Thiot

Attorney-in-Fact

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**INDEX TO FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL SCHEDULE**

	Page Reference in Report on Form 10-K
<a href="#">Management's Report on Internal Control Over Financial Reporting</a>	<a href="#">46</a>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">47</a>
<a href="#">Consolidated Statements of Earnings for the three fiscal years ended January 1, 2017</a>	<a href="#">48</a>
<a href="#">Consolidated Statements of Comprehensive Income for the three fiscal years ended January 1, 2017</a>	<a href="#">49</a>
<a href="#">Consolidated Balance Sheets at January 1, 2017 and January 3, 2016</a>	<a href="#">50</a>
<a href="#">Consolidated Statements of Stockholders' Equity for the three fiscal years ended January 1, 2017</a>	<a href="#">52</a>
<a href="#">Consolidated Statements of Cash Flows for the three fiscal years ended January 1, 2017</a>	<a href="#">53</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">54</a>
<a href="#">Financial Statement Schedule - Schedule II - Valuation Reserves</a>	<a href="#">78</a>

### **Management's Report on Internal Control Over Financial Reporting**

The management of Kelly Services, Inc. (the "Company"), is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- 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;
- 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 change.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of January 1, 2017. In making this assessment, the Company's management 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, management determined that, as of January 1, 2017, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of January 1, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 47.

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Kelly Services, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Kelly Services, Inc. and its subsidiaries at January 1, 2017 and January 3, 2016, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 1, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, 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's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP  
Detroit, Michigan  
February 17, 2017



**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

	2016	2015 <sup>(1)</sup>	2014
	(In millions of dollars except per share items)		
<b>Revenue from services</b>	<b>\$ 5,276.8</b>	<b>\$ 5,518.2</b>	<b>\$ 5,562.7</b>
Cost of services	4,370.5	4,597.9	4,654.3
<b>Gross profit</b>	<b>906.3</b>	<b>920.3</b>	<b>908.4</b>
Selling, general and administrative expenses	843.1	853.6	886.5
<b>Earnings from operations</b>	<b>63.2</b>	<b>66.7</b>	<b>21.9</b>
Gain on investment in TS Kelly Asia Pacific	87.2	—	—
Other expense, net	(0.7)	(3.5)	(2.8)
<b>Earnings before taxes and equity in net earnings (loss) of affiliate</b>	<b>149.7</b>	<b>63.2</b>	<b>19.1</b>
Income tax expense (benefit)	30.0	8.7	(7.1)
<b>Net earnings before equity in net earnings (loss) of affiliate</b>	<b>119.7</b>	<b>54.5</b>	<b>26.2</b>
Equity in net earnings (loss) of affiliate	1.1	(0.7)	(2.5)
<b>Net earnings</b>	<b>\$ 120.8</b>	<b>\$ 53.8</b>	<b>\$ 23.7</b>
<b>Basic earnings per share</b>	<b>\$ 3.10</b>	<b>\$ 1.39</b>	<b>\$ 0.61</b>
<b>Diluted earnings per share</b>	<b>\$ 3.08</b>	<b>\$ 1.39</b>	<b>\$ 0.61</b>
Dividends per share	\$ 0.275	\$ 0.20	\$ 0.20
Average shares outstanding (millions):			
Basic	38.1	37.8	37.5
Diluted	38.4	37.9	37.5

(1) Fiscal year included 53 weeks.

See accompanying Notes to Consolidated Financial Statements.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	2016	2015 <sup>(1)</sup>	2014
	(In millions of dollars)		
Net earnings	\$ 120.8	\$ 53.8	\$ 23.7
<b>Other comprehensive income, net of tax:</b>			
Foreign currency translation adjustments, net of tax benefit of \$0.9 million, tax expense of \$0.4 million and \$0.6 million, respectively	(0.6)	(19.4)	(20.2)
Less: Reclassification adjustments included in net earnings	(0.1)	(0.2)	(0.9)
Foreign currency translation adjustments	(0.7)	(19.6)	(21.1)
Unrealized gains (losses) on investment, net of tax benefit of \$0.7 million and tax expense of \$15.8 million and \$8.2 million, respectively	(1.1)	28.6	11.5
Pension liability adjustments, net of tax expense of \$0.0 million, \$0.0 million and \$0.0 million, respectively	(0.3)	0.5	(0.8)
Less: Reclassification adjustments included in net earnings	0.1	0.1	0.1
Pension liability adjustments	(0.2)	0.6	(0.7)
Other comprehensive income (loss)	(2.0)	9.6	(10.3)
Comprehensive Income	<u>\$ 118.8</u>	<u>\$ 63.4</u>	<u>\$ 13.4</u>

(1) Fiscal year included 53 weeks.

See accompanying Notes to Consolidated Financial Statements.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<u>2016</u>	<u>2015</u>
(In millions of dollars)		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 29.6	\$ 42.2
Trade accounts receivable, less allowances of \$12.5 million and \$10.5 million, respectively	1,138.3	1,139.1
Prepaid expenses and other current assets	46.7	45.8
<b>Total current assets</b>	<b>1,214.6</b>	<b>1,227.1</b>
<b>NONCURRENT ASSETS:</b>		
<b>Property and equipment:</b>		
Property and equipment	270.0	361.8
Accumulated depreciation	(189.2)	(272.9)
Net property and equipment	80.8	88.9
Deferred taxes	180.1	189.3
Goodwill, net	88.4	90.3
Investment in equity affiliate	114.8	9.4
Other assets	349.4	334.6
<b>Total noncurrent assets</b>	<b>813.5</b>	<b>712.5</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,028.1</b>	<b>\$ 1,939.6</b>

See accompanying Notes to Consolidated Financial Statements.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	2016	2015
(In millions of dollars)		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings	\$ —	\$ 55.5
Accounts payable and accrued liabilities	455.1	405.5
Accrued payroll and related taxes	241.5	268.1
Accrued insurance	23.4	26.7
Income and other taxes	51.1	60.0
Total current liabilities	771.1	815.8
<b>NONCURRENT LIABILITIES:</b>		
Accrued insurance	45.5	40.0
Accrued retirement benefits	157.4	141.0
Other long-term liabilities	42.1	47.4
Total noncurrent liabilities	245.0	228.4
Commitments and contingencies (See Commitments and Contingencies footnotes)		
<b>STOCKHOLDERS' EQUITY:</b>		
Capital stock, \$1.00 par value		
Class A common stock, shares issued 36.6 million at 2016 and 2015	36.6	36.6
Class B common stock, shares issued 3.5 million at 2016 and 2015	3.5	3.5
Treasury stock, at cost		
Class A common stock, 1.9 million shares at 2016 and 2.1 million at 2015	(38.4)	(43.7)
Class B common stock	(0.6)	(0.6)
Paid-in capital	28.6	25.4
Earnings invested in the business	923.6	813.5
Accumulated other comprehensive income	58.7	60.7
Total stockholders' equity	1,012.0	895.4
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,028.1</b>	<b>\$ 1,939.6</b>

See accompanying Notes to Consolidated Financial Statements.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	2016	2015 <sup>(1)</sup>	2014
	(In millions of dollars)		
<b>Capital Stock</b>			
Class A common stock			
Balance at beginning of year	\$ 36.6	\$ 36.6	\$ 36.6
Conversions from Class B	—	—	—
Balance at end of year	<u>36.6</u>	<u>36.6</u>	<u>36.6</u>
Class B common stock			
Balance at beginning of year	3.5	3.5	3.5
Conversions to Class A	—	—	—
Balance at end of year	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>
<b>Treasury Stock</b>			
Class A common stock			
Balance at beginning of year	(43.7)	(49.2)	(55.6)
Issuance of restricted stock and other	5.3	5.5	6.4
Balance at end of year	<u>(38.4)</u>	<u>(43.7)</u>	<u>(49.2)</u>
Class B common stock			
Balance at beginning of year	(0.6)	(0.6)	(0.6)
Issuance of restricted stock and other	—	—	—
Balance at end of year	<u>(0.6)</u>	<u>(0.6)</u>	<u>(0.6)</u>
<b>Paid-in Capital</b>			
Balance at beginning of year	25.4	24.9	26.0
Issuance of restricted stock and other	3.2	0.5	(1.1)
Balance at end of year	<u>28.6</u>	<u>25.4</u>	<u>24.9</u>
<b>Earnings Invested in the Business</b>			
Balance at beginning of year	813.5	767.4	751.3
Net earnings	120.8	53.8	23.7
Dividends	(10.7)	(7.7)	(7.6)
Balance at end of year	<u>923.6</u>	<u>813.5</u>	<u>767.4</u>
<b>Accumulated Other Comprehensive Income</b>			
Balance at beginning of year	60.7	51.1	61.4
Other comprehensive income (loss), net of tax	(2.0)	9.6	(10.3)
Balance at end of year	<u>58.7</u>	<u>60.7</u>	<u>51.1</u>
<b>Stockholders' Equity at end of year</b>	<u>\$ 1,012.0</u>	<u>\$ 895.4</u>	<u>\$ 833.7</u>

(1) Fiscal year included 53 weeks.

See accompanying Notes to Consolidated Financial Statements.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	2016	2015 <sup>(1)</sup>	2014
	(In millions of dollars)		
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 120.8	\$ 53.8	\$ 23.7
Noncash adjustments:			
Depreciation and amortization	21.3	22.3	21.7
Provision for bad debts	11.0	3.7	5.3
Stock-based compensation	8.0	6.1	5.3
Deferred income taxes	7.4	(11.8)	(26.8)
Gain on investment in TS Kelly Asia Pacific equity affiliate	(87.2)	—	—
Other, net	(3.9)	(4.7)	(2.2)
Changes in operating assets and liabilities	(40.0)	(45.9)	(97.0)
<b>Net cash from (used in) operating activities</b>	<b>37.4</b>	<b>23.5</b>	<b>(70.0)</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(12.7)	(16.9)	(21.7)
Net cash proceeds from investment in TS Kelly Asia Pacific equity affiliate	23.3	—	—
Investment in TS Kelly equity affiliate	—	(0.5)	(5.7)
Other investing activities	(0.3)	(0.2)	0.2
<b>Net cash from (used in) investing activities</b>	<b>10.3</b>	<b>(17.6)</b>	<b>(27.2)</b>
<b>Cash flows from financing activities:</b>			
Net change in short-term borrowings	(55.9)	(34.7)	63.9
Dividend payments	(10.7)	(7.7)	(7.6)
Other financing activities	(0.3)	0.2	0.3
<b>Net cash (used in) from financing activities</b>	<b>(66.9)</b>	<b>(42.2)</b>	<b>56.6</b>
<b>Effect of exchange rates on cash and equivalents</b>	<b>6.6</b>	<b>(4.6)</b>	<b>(2.0)</b>
<b>Net change in cash and equivalents</b>	<b>(12.6)</b>	<b>(40.9)</b>	<b>(42.6)</b>
<b>Cash and equivalents at beginning of year</b>	<b>42.2</b>	<b>83.1</b>	<b>125.7</b>
<b>Cash and equivalents at end of year</b>	<b>\$ 29.6</b>	<b>\$ 42.2</b>	<b>\$ 83.1</b>

(1) Fiscal year included 53 weeks.

See accompanying Notes to Consolidated Financial Statements.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**Nature of Operations** Kelly Services, Inc. is a global workforce solutions provider operating throughout the world.

**Fiscal Year** The Company's fiscal year ends on the Sunday nearest to December 31. The three most recent years ended on January 1, 2017 (2016, which contained 52 weeks), January 3, 2016 (2015, which contained 53 weeks) and December 28, 2014 (2014, which contained 52 weeks). Period costs included in selling, general and administrative ("SG&A") expenses are recorded on a calendar-year basis. The Company's operations in Brazil are accounted for on a one-month lag. The Company's equity investment in TS Kelly Asia Pacific and TS Kelly Workforce Solutions are accounted for on a one-quarter lag (see Investment in TS Kelly Asia Pacific footnote). Any material transactions in the intervening period are disclosed or accounted for in the current reporting period.

**Principles of Consolidation** The consolidated financial statements include the accounts and operations of the Company and its wholly owned subsidiaries. In connection with the Company's investment in TS Kelly Asia Pacific in the third quarter of 2016, the Commercial and PT staffing operations and certain OCG businesses in the APAC region were deconsolidated at that time. Certain prior period amounts have been reclassified to conform to the current presentation. All intercompany accounts and transactions have been eliminated.

**Available-For-Sale Investment** The Company's available-for-sale investment, as further described in the Fair Value Measurements footnote, is carried at fair value with the unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Realized losses and declines in value below cost judged to be other-than-temporary, if any, are included as a component of asset impairments expense in the consolidated statement of earnings. The fair value of the available-for-sale investment is based on quoted market prices.

**Foreign Currency Translation** All of the Company's international subsidiaries use their local currency as their functional currency, which is the currency in which they transact the majority of their activities. Revenue and expense accounts of foreign subsidiaries are translated to U.S. dollars at average exchange rates, while assets and liabilities are translated to U.S. dollars at year-end exchange rates. Resulting translation adjustments, net of tax, where applicable, are reported as accumulated foreign currency translation adjustments in stockholders' equity and are recorded as a component of accumulated other comprehensive income.

**Revenue Recognition** Revenue from services is recognized as services are provided by the temporary or contract employees. Revenue from permanent placement services is recognized at the time the permanent placement candidate begins full-time employment. Revenue from other fee-based services is recognized when the services are provided. Revenues from sales of services and the related direct costs are recorded in accordance with the accounting guidance on reporting revenue gross as a principal versus net as an agent. When we act as an agent, we report the revenues on a net basis. Provisions for sales allowances (billing adjustments related to errors, service issues and compromises on billing disputes), based on historical experience, are recognized at the time the related sale is recognized as a reduction in revenue from services.

**Allowance for Uncollectible Accounts Receivable** The Company records an allowance for uncollectible accounts receivable based on historical loss experience, customer payment patterns and current economic trends. The reserve for sales allowances, as discussed above, is also included in the allowance for uncollectible accounts receivable. The Company reviews the adequacy of the allowance for uncollectible accounts receivable on a quarterly basis and, if necessary, increases or decreases the balance by recording a charge or credit to SG&A expenses for the portion of the adjustment relating to uncollectible accounts receivable, and a charge or credit to revenue from services for the portion of the adjustment relating to sales allowances.

**Cost of Services** Cost of services are those costs directly associated with the earning of revenue. The primary examples of these types of costs are temporary employee wages, along with associated payroll taxes, temporary employee benefits, such as service bonus and holiday pay, and workers' compensation costs. These costs differ fundamentally from SG&A expenses in that they arise specifically from the action of providing our services to customers whereas SG&A costs are incurred regardless of whether or not we place temporary employees with our customers.

**Advertising Expenses** Advertising expenses, which are expensed as incurred and are included in SG&A expenses, were \$7.6 million in 2016 and 2015 and \$9.7 million in 2014.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for uncollectible accounts

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

receivable, workers' compensation, goodwill and long-lived asset impairment, litigation costs and income taxes. Actual results could differ materially from those estimates.

**Cash and Equivalents** Cash and equivalents are stated at fair value. The Company considers securities with original maturities of three months or less to be cash and equivalents.

**Property and Equipment** Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives. Cost and estimated useful lives of property and equipment by function are as follows:

Category	2016	2015	Life
	(In millions of dollars)		
Land	\$ 3.8	\$ 3.8	—
Work in process	0.8	2.5	—
Buildings and improvements	61.1	60.2	15 to 45 years
Computer hardware and software	145.0	229.5	3 to 12 years
Equipment, furniture and fixtures	33.8	34.0	5 years
Leasehold improvements	25.5	31.8	The lesser of the life of the lease or 5 years.
<b>Total property and equipment</b>	<b>\$ 270.0</b>	<b>\$ 361.8</b>	

The Company capitalizes external costs and internal payroll costs directly incurred in the development of software for internal use as required by the Internal-Use Software Subtopic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Work in process represents capitalized costs for internal use software not yet in service. Depreciation expense was \$20.7 million for 2016, \$21.4 million for 2015 and \$20.3 million for 2014.

**Operating Leases** The Company recognizes rent expense on a straight-line basis over the lease term. This includes the impact of both scheduled rent increases and free or reduced rents (commonly referred to as "rent holidays"). The Company records allowances provided by landlords for leasehold improvements as deferred rent in the consolidated balance sheet and as operating cash flows in the consolidated statements of cash flows.

**Goodwill and Other Intangible Assets** Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Purchased intangible assets with definite lives are recorded at estimated fair value at the date of acquisition and are amortized over their respective useful lives (from 3 to 15 years) on a straight-line basis or, if appropriate, on an accelerated basis commensurate with the related cash flows.

**Impairment of Long-Lived Assets, Goodwill and Intangible Assets** The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When estimated undiscounted future cash flows will not be sufficient to recover the asset group's carrying amount, in which the long-lived asset being tested for impairment resides, the asset is written down to its estimated fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or estimated fair value less cost to sell.

We test goodwill for impairment at the reporting unit level annually in the fourth quarter and whenever events or circumstances make it more likely than not that an impairment may have occurred. We have determined that our reporting units are the same as our operating and reportable segments based on our organizational structure and the financial information that is provided to and reviewed by the chief operating decision makers ("CODM"). We may use a qualitative assessment for one or more reporting units for the annual goodwill impairment test if we have determined that it is more likely than not that the fair value of the reporting unit(s) is more than their carrying value.

For reporting units where the qualitative assessment is not used, goodwill is tested for impairment using a two-step process. In the first step, the estimated fair value of a reporting unit is compared to its carrying value. If the estimated fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is not considered impaired and no further testing is required.

If the carrying value of the net assets assigned to a reporting unit exceeds the estimated fair value of a reporting unit, a second step of the impairment test is performed in order to determine the implied fair value of a reporting unit's goodwill. If the



**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

carrying value of a reporting unit's goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference.

**Accounts Payable** Included in accounts payable are book overdrafts, which are outstanding checks in excess of funds on deposit. Such amounts totaled \$8.8 million and \$4.4 million at year-end 2016 and 2015, respectively.

**Accrued Payroll and Related Taxes** Included in accrued payroll and related taxes are book overdrafts, which are outstanding checks in excess of funds on deposit. Such amounts totaled \$18.4 million and \$4.9 million at year-end 2016 and 2015, respectively. Payroll taxes for temporary employees are recognized proportionately to direct wages for interim periods based on expected full-year amounts.

**Income Taxes** The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The U.S. work opportunity credit is allowed for wages earned by employees in certain targeted groups. The actual amount of creditable wages in a particular period is estimated, since the credit is only available once an employee reaches a minimum employment period and the employee's inclusion in a targeted group is certified by the applicable state. As these events often occur after the period the wages are earned, judgment is required in determining the amount of work opportunity credits accrued for in each period. We evaluate the accrual regularly throughout the year and make adjustments as needed.

Uncertain tax positions that are taken or expected to be taken in a tax return are recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Interest and penalties related to income taxes are classified as income tax expense.

**Stock-Based Compensation** The Company may grant restricted stock awards and units (collectively, "restricted stock"), stock options (both incentive and nonqualified), stock appreciation rights and performance awards to key employees associated with the Company's Class A stock. The Company utilizes the market price on the date of grant as the fair value for restricted stock and the market price on the date of grant less the present value of the expected dividends not received during the vesting period for performance awards. The Company also estimates a fair value of performance awards related to relative total shareholder return using a Monte Carlo simulation model. The Company estimates the fair value of stock option awards on the date of grant using an option-pricing model. The value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in SG&A expense in the Company's consolidated statements of earnings.

**Earnings Per Share** Restricted stock that entitle their holders to receive nonforfeitable dividends before vesting are considered participating securities and, therefore, are included in the calculation of earnings per share using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Under this method, earnings from continuing operations (or net earnings) is reduced by the amount of dividends declared, and the remaining undistributed earnings is allocated to common stock and participating securities based on the proportion of each class's weighted average shares outstanding to the total weighted average shares outstanding. The calculation of diluted earnings per share includes the effect of potential common shares outstanding in the average weighted shares outstanding.

**Workers' Compensation** The Company establishes accruals for workers' compensation claims utilizing actuarial methods to estimate the undiscounted future cash payments that will be made to satisfy the claims. The estimates are based both on historical experience as well as current legal, economic and regulatory factors. When claims exceed the applicable loss limit or self-insured retention and realization of recovery of the claim from existing insurance policies is deemed probable, the Company records a receivable from the insurance company for the excess amount. The receivable is included in prepaid expenses and other current assets and other assets in the consolidated balance sheet at year end. The Company regularly updates its estimates, and the ultimate cost of these claims may be greater than or less than the established accrual.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2. Fair Value Measurements**

Trade accounts receivable, accounts payable, accrued liabilities, accrued payroll and related taxes and short-term borrowings approximate their fair values due to the short-term maturities of these assets and liabilities.

**Assets Measured at Fair Value on a Recurring Basis**

The following tables present the assets carried at fair value as of year-end 2016 and 2015 on the consolidated balance sheet by fair value hierarchy level, as described below.

Level 1 measurements consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 measurements include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 3 measurements include significant unobservable inputs.

Description	Fair Value Measurements on a Recurring Basis As of Year-End 2016			
	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	\$ 4.0	\$ 4.0	\$ —	\$ —
Available-for-sale investment	141.2	141.2	—	—
<b>Total assets at fair value</b>	<b>\$ 145.2</b>	<b>\$ 145.2</b>	<b>\$ —</b>	<b>\$ —</b>

Description	Fair Value Measurements on a Recurring Basis As of Year-End 2015			
	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	\$ 3.7	\$ 3.7	\$ —	\$ —
Available-for-sale investment	142.3	142.3	—	—
<b>Total assets at fair value</b>	<b>\$ 146.0</b>	<b>\$ 146.0</b>	<b>\$ —</b>	<b>\$ —</b>

Money market funds as of year-end 2016 represent investments in government money market accounts, and as of year-end 2015 represent investments in prime money market accounts, all of which are restricted as to use and are included in other assets on the consolidated balance sheet as of year-end 2016 and 2015. The valuations were based on quoted market prices of those accounts as of the respective period end.

Available-for-sale investment represents the Company's investment in Temp Holdings Co., Ltd. ("Temp Holdings") and is included in other assets on the consolidated balance sheet. The valuation is based on the quoted market price of Temp Holdings stock on the Tokyo Stock Exchange as of the period end. The unrealized loss, net of tax, of \$1.1 million for the year ended 2016 and unrealized gain, net of tax, of \$28.6 million for the year ended 2015 was recorded in other comprehensive income, as well as in accumulated other comprehensive income, a component of stockholders' equity. The cost of this yen-denominated investment, which fluctuates based on foreign exchange rates, was \$17.7 million at year-end 2016 and \$17.2 million at year-end 2015.

**Assets Measured at Fair Value on a Nonrecurring Basis**

We completed our annual impairment test for all reporting units in the fourth quarter for the fiscal years ended 2016 and 2015 and determined that goodwill was not impaired.

In 2016 and 2015, we elected to complete a step one quantitative test for all of our reporting units with goodwill. For both years, the estimated fair value of each reporting unit tested exceeded its related carrying value. As a result of these quantitative assessments, we determined it was more likely than not that the fair value of each of the reporting units was more than its carrying value.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**3. Restructuring**

In the second quarter of 2016, the Company took restructuring actions in the Americas and Italy to manage operating expenses and to prepare the businesses for future growth. The restructuring measures taken in the Americas were the result of recent revenue trends. The restructuring in Italy was designed to reposition the Company's operating model to pursue growth in staffing fee-based income and specialized temporary staffing business.

Restructuring costs incurred in 2016 totaled \$3.4 million, as detailed below, and were recorded entirely in SG&A expenses in the consolidated statement of earnings. No restructuring costs were incurred in 2015.

	Severance Costs	Lease Termination Costs	Total
	(In millions of dollars)		
Americas Commercial	\$ 1.5	\$ 0.4	\$ 1.9
Americas PT	0.3	—	0.3
EMEA Commercial	1.0	0.1	1.1
EMEA PT	0.1	—	0.1
<b>Total</b>	<b>\$ 2.9</b>	<b>\$ 0.5</b>	<b>\$ 3.4</b>

A summary of our global restructuring balance sheet accrual, primarily included in accrued payroll and related taxes, is detailed below (in millions of dollars). The balance as of year-end 2014 and cash payments in 2015 relate to actions taken with respect to the management simplification restructuring plan approved by the Board of Directors of the Company in 2014.

Balance as of year-end 2014	\$ 6.9
Reductions for cash payments related to all restructuring activities	(6.4)
Balance as of year-end 2015	0.5
Additions charged to Americas	2.2
Additions charged to EMEA	1.2
Reductions for cash payments related to all restructuring activities	(3.4)
Balance as of year-end 2016	\$ 0.5

The remaining balance of \$0.5 million as of year-end 2016 primarily represents severance costs and the majority is expected to be paid during the first quarter of 2017. No material adjustments are expected to be recorded.

**4. Investment in TS Kelly Asia Pacific**

On July 4, 2016, the Company and Temp Holdings, a leading integrated human resources company in Japan, completed a transaction to form a new joint venture, TS Kelly Asia Pacific. The Company transferred its Asia Pacific staffing operations and certain APAC OCG businesses in exchange for a 49% ownership interest in TS Kelly Asia Pacific and \$36.5 million in cash received at closing. The Company subsequently deconsolidated the contributed APAC staffing and OCG operations and recorded a \$104.2 million investment in equity affiliate on the consolidated balance sheet, which represented the fair value of the Company's ownership interest in TS Kelly Asia Pacific as of July 4, 2016. As part of this transaction, in the third quarter of 2016, the Company deconsolidated the goodwill related to the contributed entities in our APAC PT and OCG segments amounting to \$1.9 million. In the fourth quarter of 2016, the Company received a \$4.5 million post-close cash true-up adjustment from Temp Holdings.

In the third quarter of 2016, the Company recorded a pretax gain of \$87.2 million on the investment in TS Kelly Asia Pacific in the consolidated statement of earnings, which represents the fair value of the Company's retained investment in TS Kelly Asia Pacific in addition to the cash received less the carrying value of net assets transferred to the joint venture. Income taxes of \$23.5 million on this gain result primarily from recording deferred income taxes on outside basis differences. The fair value of the Company's contributed operations was determined using both an income-based and market-based approach. The income approach utilized a discounted cash flow analysis which included significant assumptions about the timing of future cash flows, growth rates and discount rates commensurate with the underlying risks of the investment. The market approach entailed

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

deriving market multiples from publicly traded companies with similar financial and operating characteristics to TS Kelly Asia Pacific and corroborated the results of the discounted cash flow method.

The operating results of the Company's interest in TS Kelly Asia Pacific are accounted for on a one-quarter lag under the equity method and are included in equity in net earnings (loss) of affiliate in the consolidated statement of earnings, which amounted to \$1.1 million in 2016. In 2015 and 2014, equity in net earnings (loss) of affiliate represented the operating results of the Company's interest in TS Kelly Workforce Solutions.

The investment in equity affiliate on the Company's consolidated balance sheet, which includes both the investment in TS Kelly Asia Pacific and TS Kelly Workforce Solutions, totaled \$114.8 million as of year-end 2016. The investment in TS Kelly Workforce Solutions totaled \$9.4 million as of year-end 2015. The Company's interest in TS Kelly Workforce Solutions is expected to be transferred to TS Kelly Asia Pacific in the first quarter of 2017 under the terms of the transaction agreement.

In 2015, we made cash contributions to TS Kelly Workforce Solutions totaling \$0.5 million. In 2014, we made net cash contributions and loans to TS Kelly Workforce Solutions totaling \$5.7 million, which includes \$4.8 million for the acquisition of a China-based staffing company. The amount due to TS Kelly Asia Pacific, a related party, was \$1.1 million as of year-end 2016. The amount included in trade accounts payable for staffing services provided by TS Kelly Asia Pacific as a supplier to CWO programs was \$3.1 million as of year-end 2016. The amount due to or due from TS Kelly Workforce Solutions was immaterial as of year-end 2015.

**5. Goodwill**

The changes in the net carrying amount of goodwill for the fiscal year 2016 are included in the table below. See Investment in TS Kelly Asia Pacific footnote for a description of adjustments to APAC PT and OCG goodwill.

	As of Year-End 2015			As of Year-End 2016		
	Goodwill, Gross	Accumulated Impairment Losses	Adjustments to Goodwill	Goodwill, Gross	Accumulated Impairment Losses	Goodwill, Net
(In millions of dollars)						
<b>Americas</b>						
Americas Commercial	\$ 40.0	\$ (16.4)	\$ —	\$ 40.0	\$ (16.4)	\$ 23.6
Americas PT	37.9	—	—	37.9	—	37.9
Total Americas	77.9	(16.4)	—	77.9	(16.4)	61.5
<b>EMEA</b>						
EMEA Commercial	50.4	(50.4)	—	50.4	(50.4)	—
EMEA PT	22.0	(22.0)	—	22.0	(22.0)	—
Total EMEA	72.4	(72.4)	—	72.4	(72.4)	—
<b>APAC</b>						
APAC Commercial	12.1	(12.1)	—	12.1	(12.1)	—
APAC PT	1.4	—	(1.4)	—	—	—
Total APAC	13.5	(12.1)	(1.4)	12.1	(12.1)	—
OCG	27.4	—	(0.5)	26.9	—	26.9
Consolidated Total	\$ 191.2	\$ (100.9)	\$ (1.9)	\$ 189.3	\$ (100.9)	\$ 88.4

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

There were no changes in the net carrying amount of goodwill for the fiscal year 2015 as shown in the table below.

	As of Year-End 2014			As of Year-End 2015		
	Goodwill, Gross	Accumulated Impairment Losses	Adjustments to Goodwill	Goodwill, Gross	Accumulated Impairment Losses	Goodwill, Net
(In millions of dollars)						
<b>Americas</b>						
Americas Commercial	\$ 40.0	\$ (16.4)	\$ —	\$ 40.0	\$ (16.4)	\$ 23.6
Americas PT	37.9	—	—	37.9	—	37.9
Total Americas	77.9	(16.4)	—	77.9	(16.4)	61.5
<b>EMEA</b>						
EMEA Commercial	50.4	(50.4)	—	50.4	(50.4)	—
EMEA PT	22.0	(22.0)	—	22.0	(22.0)	—
Total EMEA	72.4	(72.4)	—	72.4	(72.4)	—
<b>APAC</b>						
APAC Commercial	12.1	(12.1)	—	12.1	(12.1)	—
APAC PT	1.4	—	—	1.4	—	1.4
Total APAC	13.5	(12.1)	—	13.5	(12.1)	1.4
OCG	27.4	—	—	27.4	—	27.4
Consolidated Total	\$ 191.2	\$ (100.9)	\$ —	\$ 191.2	\$ (100.9)	\$ 90.3

**6. Other Assets**

Included in other assets are the following:

	2016	2015
(In millions of dollars)		
Deferred compensation plan (see Retirement Benefits footnote)	\$ 165.0	\$ 148.2
Available-for-sale investment (see Fair Value Measurements footnote)	141.2	142.3
Wage subsidy receivable	22.3	19.9
Workers' compensation receivable	6.8	8.2
Intangibles, net of accumulated amortization of \$16.7 million in 2016 and \$17.2 million in 2015	0.6	1.3
Other	13.5	14.7
Other assets	\$ 349.4	\$ 334.6

Intangible amortization expense, which is included in SG&A expenses, was \$0.6 million, \$0.9 million and \$1.4 million in 2016, 2015 and 2014, respectively. Wage subsidy receivable is related to a law to enhance the competitiveness of businesses in France. Workers' compensation receivable represents receivables from the insurance company for U.S. workers' compensation claims in excess of the applicable loss limits.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**7. Debt**

**Short-Term Debt**

On December 5, 2016, the Company entered into an agreement with its lenders to amend and restate its \$200.0 million, five-year revolving credit facility (the "Facility"). The amendment decreased the size to \$150.0 million and changed some of the terms and conditions, with a new maturity date of December 6, 2021. The Facility allows for borrowings in various currencies and is available to be used to fund working capital, acquisitions and general corporate needs.

At year-end 2016, there were no borrowings under the Facility and a remaining borrowing capacity of \$150.0 million. At year-end 2015, there were no borrowings under the Facility and the remaining borrowing capacity was \$200.0 million. To maintain availability of the funds, we pay a facility fee on the full amount of the Facility, regardless of usage. The facility fee varies based on the Company's leverage ratio as defined in the agreement. The Facility, which contains a cross-default clause that could result in termination if defaults occur under our other loan agreements, had a facility fee of 17.5 basis points at year-end 2016 and 20 basis points at year-end 2015. The Facility's financial covenants and restrictions are described below, all of which were met at year-end 2016:

- We must maintain a certain minimum ratio of earnings before interest, taxes, depreciation, amortization and certain cash and non-cash charges that are non-recurring in nature ("EBITDA") to interest expense ("Interest Coverage Ratio") as of the end of any fiscal quarter.
- We must maintain a certain maximum ratio of total indebtedness to the sum of net worth and total indebtedness at all times.
- Dividends, stock buybacks and similar transactions are limited to certain maximum amounts.
- We must adhere to other operating restrictions relating to the conduct of business, such as certain limitations on asset sales and the type and scope of investments.

On December 5, 2016, the Company and Kelly Receivables Funding, LLC, a wholly owned bankruptcy remote special purpose subsidiary of the Company (the "Receivables Entity"), amended the Receivables Purchase Agreement related to the \$150.0 million Securitization Facility (the "Securitization Facility"). The amendment increased the size to \$200.0 million and changed some of the terms and conditions, with a new maturity date of December 5, 2019.

Under the Securitization Facility, the Company will sell certain trade receivables and related rights ("Receivables"), on a revolving basis, to the Receivables Entity. The Receivables Entity may from time to time sell an undivided variable percentage ownership interest in the Receivables. The Securitization Facility, which contains a cross-default clause that could result in termination if defaults occur under our other loan agreements, also allows for the issuance of standby letters of credit ("SBLC") and contains certain restrictions based on the performance of the Receivables.

As of year-end 2016, the Securitization Facility had no short-term borrowings, SBLCs of \$50.4 million related to workers' compensation at a rate of 0.50% and a remaining capacity of \$149.6 million. As of year-end 2015, the Securitization Facility carried \$50.0 million of short-term borrowings at a rate of 0.82%, SBLCs of \$49.0 million related to workers' compensation at a rate of 0.40% and a remaining capacity of \$51.0 million. The rates above for short-term borrowings include the LIBOR interest rate and a utilization rate on the amount of our borrowings. The rates for the SBLCs represent a utilization rate on the outstanding amount of the SBLCs. In addition, we pay a facility fee of 40 basis points on the full amount of the Securitization Facility, regardless of usage.

The Receivables Entity's sole business consists of the purchase or acceptance through capital contributions of trade accounts receivable and related rights from the Company. As described above, the Receivables Entity may retransfer these receivables or grant a security interest in those receivables under the terms and conditions of the Receivables Purchase Agreement. The Receivables Entity is a separate legal entity with its own creditors who would be entitled, if it were ever liquidated, to be satisfied out of its assets prior to any assets or value in the Receivables Entity becoming available to its equity holders. The assets of the Receivables Entity are not available to pay creditors of the Company or any of its other subsidiaries. The assets and liabilities of the Receivables Entity are included in the consolidated financial statements of the Company.

The Company had total unsecured, uncommitted short-term local credit facilities of \$8.6 million as of year-end 2016. There were no borrowings under these lines at year-end 2016 compared to \$5.5 million at year-end 2015. The weighted average interest rate for these borrowings, which were primarily related to Brazil, was 15.7% at year-end 2015.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**8. Retirement Benefits**

The Company provides a qualified defined contribution plan covering substantially all U.S.-based full-time employees, except officers and certain other employees. The plan offers a savings feature with Company matching contributions. Assets of this plan are held by an independent trustee for the sole benefit of participating employees.

A nonqualified plan is provided for officers and certain other employees. This plan includes provisions for salary deferrals and Company matching contributions.

Effective January 1, 2015, the Board of Directors approved amendments to the qualified and unqualified defined contribution plans to increase Company matching contributions and eliminate the discretionary contributions.

In addition to the plans above, the Company also provides a qualified plan and a nonqualified plan to certain U.S.-based temporary employees.

The liability for the nonqualified plans was \$166.7 million and \$150.3 million as of year-end 2016 and 2015, respectively, and is included in current accrued payroll and related taxes and noncurrent accrued retirement benefits. The cost of participants' earnings or loss on this liability, which were included in SG&A expenses, were earnings of \$10.5 million in 2016, loss of \$1.6 million in 2015 and earnings of \$7.6 million in 2014. In connection with the administration of these plans, the Company has purchased company-owned variable universal life insurance policies insuring the lives of certain current and former officers and key employees. The cash surrender value of these policies, which is based primarily on investments in mutual funds and can only be used for payment of the Company's obligations related to the nonqualified deferred compensation plan noted above, was \$165.0 million and \$148.2 million at year-end 2016 and 2015, respectively. The cash surrender value of these insurance policies is included in other assets. Tax-free earnings on these assets, which were included in SG&A expenses, were \$9.7 million in 2016, \$0.3 million in 2015 and \$7.3 million in 2014.

The net expense for retirement benefits for the qualified and nonqualified plans, including Company matching and discretionary contributions for full-time employees, totaled \$9.0 million in 2016, \$5.7 million in 2015 and \$6.1 million in 2014. The expense related to retirement plan contributions for temporary employees, which is included in cost of services, is reimbursed by our customers.

In addition, the Company also has several defined benefit pension plans in locations outside of the United States. The total projected benefit obligation, assets and unfunded liability for these plans as of year-end 2016 were \$11.6 million, \$7.6 million and \$4.0 million, respectively. The total projected benefit obligation, assets and unfunded liability for these plans as of year-end 2015 were \$11.5 million, \$7.3 million and \$4.2 million, respectively. Total pension expense for these plans was \$0.4 million, \$0.3 million and \$0.9 million in 2016, 2015 and 2014, respectively. Pension contributions and the amount of accumulated other comprehensive income expected to be recognized in 2017 are not significant.

**9. Stockholders' Equity**

**Common Stock**

The authorized capital stock of the Company is 100,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock. Class A shares have no voting rights and are not convertible. Class B shares have voting rights and are convertible by the holder into Class A shares on a share-for-share basis at any time. Both classes of stock have identical rights in the event of liquidation.

Class A shares and Class B shares are both entitled to receive dividends, subject to the limitation that no cash dividend on the Class B shares may be declared unless the Board of Directors declares an equal or larger cash dividend on the Class A shares. As a result, a cash dividend may be declared on the Class A shares without declaring a cash dividend on the Class B shares.

The Company made dividend payments totaling \$10.7 million in 2016, \$7.7 million in 2015 and \$7.6 million in 2014.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Accumulated Other Comprehensive Income**

The changes in accumulated other comprehensive income by component, net of tax, during 2016 and 2015 are included in the table below. Amounts in parentheses indicate debits.

	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
(In millions of dollars)				
Balance at year-end 2015	\$ (22.6)	\$ 84.9	\$ (1.6)	\$ 60.7
Other comprehensive income (loss) before reclassifications	(0.6)	(1.1)	(0.3)	(2.0)
Amounts reclassified from accumulated other comprehensive income	(0.1) <sup>(1)</sup>	—	0.1 <sup>(2)</sup>	—
Net current-period other comprehensive income	(0.7)	(1.1)	(0.2)	(2.0)
Balance at year-end 2016	<u>\$ (23.3)</u>	<u>\$ 83.8</u>	<u>\$ (1.8)</u>	<u>\$ 58.7</u>

	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
(In millions of dollars)				
Balance at year-end 2014	\$ (3.0)	\$ 56.3	\$ (2.2)	\$ 51.1
Other comprehensive income (loss) before reclassifications	(19.4)	28.6	0.5	9.7
Amounts reclassified from accumulated other comprehensive income	(0.2) <sup>(1)</sup>	—	0.1 <sup>(2)</sup>	(0.1)
Net current-period other comprehensive income	(19.6)	28.6	0.6	9.6
Balance at year-end 2015	<u>\$ (22.6)</u>	<u>\$ 84.9</u>	<u>\$ (1.6)</u>	<u>\$ 60.7</u>

(1) Amount was recorded in the other expense, net line item in the consolidated statement of earnings.

(2) Amount was recorded in the SG&A expenses line item in the consolidated statement of earnings.



**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**10. Earnings Per Share**

The reconciliation of basic earnings per share on common stock for the year-end 2016, 2015 and 2014 follows (in millions of dollars except per share data).

	2016	2015	2014
Net earnings	\$ 120.8	\$ 53.8	\$ 23.7
Less: Earnings allocated to participating securities	(2.6)	(1.4)	(0.7)
Net earnings available to common shareholders	<u>\$ 118.2</u>	<u>\$ 52.4</u>	<u>\$ 23.0</u>
<b>Average common shares outstanding (millions):</b>			
Basic	38.1	37.8	37.5
Dilutive share awards	0.3	0.1	—
Diluted	<u>38.4</u>	<u>37.9</u>	<u>37.5</u>
Basic earnings per share	\$ 3.10	\$ 1.39	\$ 0.61
Diluted earnings per share	\$ 3.08	\$ 1.39	\$ 0.61

Potentially dilutive shares outstanding are primarily related to performance shares for 2016 and 2015. Stock options excluded from the computation of diluted earnings per share due to their anti-dilutive effect for 2016 and 2015 were not significant. Stock options representing 0.1 million shares for 2014 were excluded from the computation of diluted earnings per share due to their anti-dilutive effect.

We have presented earnings per share for our two classes of common stock on a combined basis. This presentation is consistent with the earnings per share computations that result for each class of common stock utilizing the two-class method as described in ASC Topic 260, "Earnings Per Share". The two-class method is an earnings allocation formula which determines earnings per share for each class of common stock according to the dividends declared (or accumulated) and participation rights in the undistributed earnings.

In applying the two class method, we have determined that the undistributed earnings should be allocated to each class on a pro rata basis after consideration of all of the participation rights of the Class B shares (including voting and conversion rights) and our history of paying dividends equally to each class of common stock on a per share basis.

The Company's Restated Certificate of Incorporation allows the Board of Directors to declare a cash dividend to Class A shares without declaring equal dividends to the Class B shares. Class B shares' voting and conversion rights, however, effectively allow the Class B shares to participate in dividends equally with Class A shares on a per share basis.

The Class B shares are the only shares with voting rights. The Class B shareholders are therefore able to exercise voting control with respect to all matters requiring stockholder approval, including the election of or removal of directors. The Board of Directors has historically declared and the Company historically has paid equal per share dividends on both the Class A and Class B shares. Each class has participated equally in all dividends declared since 1987.

In addition, Class B shares are convertible, at the option of the holder, into Class A shares on a one-for-one basis. As a result, Class B shares can participate equally in any dividends declared on the Class A shares by exercising their conversion rights.

**11. Stock-Based Compensation**

Under the Equity Incentive Plan, amended and restated February 12, 2015 and approved by the stockholders of the Company on May 6, 2015 (the "EIP"), the Company may grant stock options (both incentive and nonqualified), stock appreciation rights, restricted stock and performance awards to key employees associated with the Company's Class A stock. The EIP provides that the maximum number of shares available for grants is 15 percent of the outstanding Class A stock, adjusted for EIP activity over the preceding five years. Shares available for future grants at year-end 2016 under the EIP were 2,444,136. The Company issues shares out of treasury stock to satisfy stock-based awards. The Company presently has no intent to repurchase additional shares for the purpose of satisfying stock-based awards.

The Company recognized stock-based compensation cost of \$10.2 million in 2016, \$7.9 million in 2015 and \$7.6 million in 2014, as well as related tax benefits of \$3.9 million in 2016, \$3.0 million in 2015 and \$2.9 million in 2014.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Windfall tax benefits, which were included in the “Other financing activities” component of net cash from financing activities in the consolidated statements of cash flows, totaled \$0.5 million in 2016, \$0.2 million for 2015 and \$0.4 million for 2014.

**Restricted Stock**

Restricted stock, which typically vests over 4 years, is issued to certain key employees and is subject to forfeiture until the end of an established restriction period. The Company utilizes the market price of its Class A stock on the date of grant as the fair value of restricted stock and expenses the fair value on a straight-line basis over the vesting period.

A summary of the status of nonvested restricted stock under the EIP as of year-end 2016 and changes during this period is presented as follows:

	Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested at year-end 2015	885,882	\$ 16.30
Granted	142,100	17.08
Vested	(341,239)	16.15
Forfeited	(33,500)	15.61
Nonvested at year-end 2016	653,243	\$ 16.58

As of year-end 2016, unrecognized compensation cost related to unvested restricted stock totaled \$8.5 million. The weighted average period over which this cost is expected to be recognized is approximately 1.5 years. The weighted average grant date fair value per share of restricted stock granted during 2016, 2015 and 2014 was \$17.08, \$15.85 and \$15.63, respectively. The total fair value of restricted stock, which vested during 2016, 2015 and 2014, was \$6.4 million, \$5.4 million and \$7.1 million, respectively.

**Performance Shares**

During 2016 and 2015, the Company granted performance awards associated with the Company’s Class A stock to certain senior officers. The payment of performance shares, which will be satisfied with the issuance of shares out of treasury stock, is contingent upon the achievement of specific performance goals over a stated period of time.

*2016 Grant*

For the 2016 performance share grant (“2016 grant”), the total target number of performance shares granted is 331,500, and the maximum number of performance shares that may be earned is 663,000, which assumes 200% of the target shares originally granted. Target shares of 248,625 may be earned upon the achievement of three financial goals (“financial measure performance shares”) and target shares of 82,875 may be earned based on the Company’s total shareholder return relative to the S&P SmallCap 600 Index (“TSR performance shares”). No dividends are paid on these performance shares.

The financial measure performance shares, which have a weighted average grant date fair value of \$15.85, have a three-year performance period through December 31, 2018. These shares will cliff-vest after approval by the Compensation Committee, which will be no later than March 15, 2019, if not forfeited by the recipient. For each of the three financial measures, there are annual goals set in February of each year, with the total award payout based on a cumulative average of the 2016, 2017 and 2018 goals. Accordingly, the Company remeasures the fair value of the 2016 financial measure performance shares each reporting period until the 2018 goals are set, after which the fair value will be fixed for the remaining performance period. As of year-end 2016, the current fair value for financial measure performance shares was \$22.04. The total nonvested shares at maximum level (200%) related to financial measure performance awards at year-end 2016 is 497,250.

The TSR performance shares have a three-year performance period through December, 31, 2018 and have an estimated fair value of \$19.73, which was computed using a Monte Carlo simulation model incorporating assumptions for inputs of expected stock price volatility, dividend yield and risk-free interest rate. If earned, these shares will be awarded and fully vest after approval by the Compensation Committee, which will be no later than March 15, 2019, if not forfeited by the recipient. The total nonvested shares at maximum level (200%) related to TSR performance awards at year-end 2016 is 165,750.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*2015 Grant*

For the 2015 performance share grant (“2015 grant”), the total target number of performance shares granted is 375,000, and the maximum number of performance shares that may be earned is 750,000, which assumes 200% of the target shares originally granted. Target shares of 250,000 may be earned upon the achievement of two financial goals (“financial measure performance shares”) and target shares of 125,000 may be earned based on the Company’s total shareholder return (“TSR”) relative to the S&P SmallCap 600 Index (“TSR performance shares”). No dividends are paid on these performance shares.

The 2015 financial measure performance shares, which have a weighted average grant date fair value of \$16.31, had a one-year performance measure through fiscal 2015 and will vest after the completion of an additional two-year service period. Based upon the level of achievement of specific financial performance goals for the 2015 grant, participants had the ability to receive up to 200% of the target number of shares originally granted. On February 17, 2016, the Compensation Committee approved the actual performance achievement of the financial measure performance shares for the 2015 grant. Actual performance resulted in participants achieving 115% of target, or 287,896 shares for the financial measure performance awards on a combined basis. These shares will cliff-vest after the approval of the Compensation Committee, which will be no later than March 15, 2018, if not forfeited by the recipient. The total nonvested shares related to 2015 financial measure performance awards at year-end 2016 is 287,896.

The 2015 TSR performance shares have a three-year performance measure with vesting at the end of the performance period. These shares have an estimated fair value of \$16.01, which was computed using a Monte Carlo simulation model incorporating assumptions for inputs of expected stock price volatility, dividend yield and risk-free interest rate. If earned, these shares will be awarded and fully vest after the approval of the Compensation Committee, which will be no later than March 15, 2018, if not forfeited by the recipient. The total nonvested shares at maximum level (200%) related to TSR performance awards at year-end 2016 is 250,000.

As of year-end 2016, unrecognized compensation cost related to all unvested financial measure performance shares and TSR performance shares totaled \$2.1 million and \$1.4 million, respectively. The weighted average period over which the costs are expected to be recognized is approximately 1.3 years for financial measure performance shares and 1.6 years for TSR performance shares.

**Stock Options**

Under the terms of the EIP, stock options may not be granted at prices less than the fair value of the Company’s Class A stock on the date of grant, nor for a term exceeding 10 years, and typically vest over 3 years. The Company expenses the fair value of stock option grants on a straight-line basis over the vesting period. No stock options were granted in 2016, 2015 and 2014.

A summary of the status of stock option grants under the EIP as of year-end 2016 and changes during this period is presented as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at year-end 2015	12,000	\$ 27.24		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	(12,000)	27.24		
Outstanding at year-end 2016	—	\$ —	0	\$ —
Options exercisable at year-end 2016	—	\$ —	0	\$ —

The table above represented 12,000 of non-employee director shares outstanding at year-end 2015, which expired during 2016.

As of year-end 2016, there was no unrecognized compensation cost related to unvested stock options. No stock options were exercised in 2016, 2015 and 2014.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Other Expense, Net**

Included in other expense, net are the following:

	2016	2015	2014
	(In millions of dollars)		
Interest income	\$ 0.4	\$ 0.3	\$ 0.5
Interest expense	(3.8)	(3.8)	(3.0)
Dividend income	1.2	0.9	0.7
Foreign exchange gains/(losses)	1.6	(0.9)	(1.0)
Other	(0.1)	—	—
<b>Other expense, net</b>	<b>\$ (0.7)</b>	<b>\$ (3.5)</b>	<b>\$ (2.8)</b>

Dividend income includes dividends earned on the Company's investment in Temp Holdings (see Fair Value Measurements footnote).

**13. Income Taxes**

Earnings before taxes and equity in net earnings (loss) of affiliate for the years 2016, 2015 and 2014 were taxed under the following jurisdictions:

	2016	2015	2014
	(In millions of dollars)		
Domestic	\$ 112.4	\$ 28.9	\$ 5.9
Foreign	37.3	34.3	13.2
<b>Total</b>	<b>\$ 149.7</b>	<b>\$ 63.2</b>	<b>\$ 19.1</b>

The provision for income taxes was as follows:

	2016	2015	2014
	(In millions of dollars)		
<b>Current tax expense:</b>			
U.S. federal	\$ 10.2	\$ 8.3	\$ 5.6
U.S. state and local	2.4	1.4	1.4
Foreign	10.0	10.8	12.7
<b>Total current</b>	<b>22.6</b>	<b>20.5</b>	<b>19.7</b>
<b>Deferred tax expense:</b>			
U.S. federal	11.8	(10.6)	(22.0)
U.S. state and local	2.0	0.8	(0.4)
Foreign	(6.4)	(2.0)	(4.4)
<b>Total deferred</b>	<b>7.4</b>	<b>(11.8)</b>	<b>(26.8)</b>
<b>Total provision</b>	<b>\$ 30.0</b>	<b>\$ 8.7</b>	<b>\$ (7.1)</b>

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Deferred taxes are comprised of the following:

	2016	2015
	(In millions of dollars)	
Depreciation and amortization	\$ (14.6)	\$ (14.3)
Employee compensation and benefit plans	75.5	70.6
Workers' compensation	22.4	21.4
Unrealized gain on securities	(33.6)	(36.7)
Investment in equity affiliate	(22.7)	4.0
Loss carryforwards	36.4	40.6
Credit carryforwards	121.2	113.4
Other, net	3.5	4.1
Valuation allowance	(42.1)	(50.9)
Net deferred tax assets	<u>\$ 146.0</u>	<u>\$ 152.2</u>

The deferred tax balance is classified in the consolidated balance sheet as:

	2016	2015
	(In millions of dollars)	
Deferred tax asset	\$ 180.1	\$ 189.3
Other long-term liabilities	(34.1)	(37.1)
	<u>\$ 146.0</u>	<u>\$ 152.2</u>

The differences between income taxes from continuing operations for financial reporting purposes and the U.S. statutory rate of 35% are as follows:

	2016	2015	2014
	(In millions of dollars)		
Income tax based on statutory rate	\$ 52.4	\$ 22.1	\$ 6.7
State income taxes, net of federal benefit	2.9	1.3	0.7
General business credits	(17.0)	(17.9)	(17.5)
Life insurance cash surrender value	(3.0)	0.3	(2.2)
Foreign items	0.4	(2.5)	(1.1)
Foreign business taxes	3.6	3.7	4.2
Foreign tax law change	—	(0.7)	(2.2)
TS Kelly Asia Pacific transaction gain	(4.8)	—	—
Non-deductible expenses	1.6	2.3	2.1
Change in deferred tax realizability	(5.9)	—	2.2
Other, net	(0.2)	0.1	—
Total	<u>\$ 30.0</u>	<u>\$ 8.7</u>	<u>\$ (7.1)</u>

General business credits primarily represent U.S. work opportunity credits. Foreign items include foreign income tax rate differences, foreign tax credits and deductions, and foreign non-deductible expenses and non-taxable income. Foreign business taxes include the French business tax and other taxes based on revenue less certain expenses and are classified as income taxes under ASC Topic 740 ("ASC 740"), Income Taxes.

The Company has U.S. general business credit carryforwards of \$116.3 million which will expire from 2032 to 2036, foreign tax credit carryforwards of \$4.8 million that expire from 2022 to 2026 and \$0.1 million of state credit carryforwards that expire from 2017 to 2036, or have no expiration. The net tax effect of state and foreign loss carryforwards at year-end 2016 totaled \$36.4 million, which expire as follows (in millions of dollars):

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Year	Amount
2017-2019	\$ 1.9
2020-2022	0.7
2023-2026	0.2
2027-2029	0.1
No expiration	33.5
Total	<u>\$ 36.4</u>

The Company has established a valuation allowance for loss carryforwards and future deductible items in certain foreign jurisdictions, and for U.S. foreign tax credit carryforwards. The valuation allowance is determined in accordance with the provisions of ASC 740, which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. The Company's recent losses in these foreign jurisdictions, and its recent lack of adequate U.S. foreign source income to fully utilize foreign tax credit carryforwards, represented sufficient negative evidence to require a valuation allowance under ASC 740. The Company intends to maintain a valuation allowance until sufficient positive evidence exists to support realization of the foreign deferred tax assets.

Provision has not been made for U.S. or additional foreign income taxes on an estimated \$110.5 million of undistributed earnings which are permanently reinvested. If these earnings were to be repatriated, the Company would be subject to U.S. income taxes and foreign withholding taxes, adjusted for foreign tax credits. Determination of the amount of any unrecognized deferred income tax liability related to these undistributed earnings is not practicable due to the complexities associated with this hypothetical calculation.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2016	2015	2014
	(In millions of dollars)		
Balance at beginning of the year	\$ 1.7	\$ 2.4	\$ 2.8
Additions for prior years' tax positions	0.1	0.1	—
Reductions for prior years' tax positions	—	(0.7)	(0.4)
Additions for settlements	—	—	—
Reductions for settlements	—	—	—
Reductions for expiration of statutes	(0.4)	(0.1)	—
Balance at end of the year	<u>\$ 1.4</u>	<u>\$ 1.7</u>	<u>\$ 2.4</u>

If the \$1.4 million in 2016, \$1.7 million in 2015 and \$2.4 million in 2014 of unrecognized tax benefits were recognized, they would have a favorable effect of \$1.0 million in 2016, \$1.1 million in 2015 and \$1.5 million in 2014 on income tax expense.

The Company recognizes both interest and penalties as part of the income tax provision. Interest and penalties expense in 2016 was not significant. The Company recognized a benefit of \$0.2 million in 2015 and expense of \$0.1 million in 2014 for interest and penalties. Accrued interest and penalties were \$0.2 million at year-end 2016 and \$0.2 million at year-end 2015.

The Company files income tax returns in the U.S. and in various states and foreign countries. The tax periods open to examination by the major taxing jurisdictions to which the Company is subject include the U.S. for fiscal years 2013 through 2016, Canada for fiscal years 2009 through 2016, France for fiscal years 2014 through 2016, Mexico for fiscal years 2011 through 2016, Portugal for fiscal years 2013 through 2016, and Switzerland for fiscal years 2007 through 2016.

The Company and its subsidiaries have various income tax returns in the process of examination. The unrecognized tax benefit and related interest and penalty balances include approximately \$0.4 million for 2016, related to tax positions which are reasonably possible to change within the next twelve months due to income tax audits, settlements and statute expirations.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**14. Supplemental Cash Flow Information**

Changes in operating assets and liabilities, net of the effect of deconsolidated subsidiaries, as disclosed in the statements of cash flows, for the fiscal years 2016, 2015 and 2014, respectively, were as follows:

	2016	2015	2014
	(In millions of dollars)		
Increase in trade accounts receivable	\$ (93.9)	\$ (64.2)	\$ (155.4)
Increase in prepaid expenses and other assets	(11.0)	(5.2)	(14.7)
Increase in accounts payable and accrued liabilities	58.4	50.9	36.4
Increase (decrease) in accrued payroll and related taxes	1.9	(23.7)	28.5
Increase (decrease) in accrued insurance	2.4	(4.2)	(2.7)
Increase in income and other taxes	2.2	0.5	10.9
<b>Total changes in operating assets and liabilities</b>	<b>\$ (40.0)</b>	<b>\$ (45.9)</b>	<b>\$ (97.0)</b>

The Company paid interest of \$2.7 million in 2016 and 2015 and \$1.6 million in 2014. The Company paid income taxes of \$24.0 million in 2016, \$23.5 million in 2015 and \$10.9 million in 2014.

Non-cash capital expenditures totaled \$1.7 million, \$1.8 million and \$1.4 million in 2016, 2015 and 2014, respectively.

**15. Commitments**

The Company conducts its branch-based operations primarily from leased facilities. The following is a schedule by fiscal year of future minimum commitments under operating leases as of year-end 2016 (in millions of dollars):

Fiscal year:	
2017	\$ 25.3
2018	17.8
2019	11.6
2020	6.5
2021	3.4
Later years	0.9
<b>Total</b>	<b>\$ 65.5</b>

Lease expense for fiscal 2016, 2015 and 2014 amounted to \$33.1 million, \$37.5 million and \$43.5 million, respectively.

In addition to operating lease agreements, the Company has entered into noncancelable purchase obligations totaling \$25.7 million. These obligations relate primarily to online tools and voice and data communications services which the Company expects to utilize generally within the next two fiscal years, in the ordinary course of business. The Company has no material unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities. See the Debt and Retirement Benefits footnotes for commitments related to debt and pension obligations.

**16. Contingencies**

The Company is a party to a pending nationwide class action lawsuit entitled Hillson et.al. v Kelly Services. The suit alleges that current and former temporary employees of Kelly Services are entitled to monetary damages for violation of the Fair Credit Reporting Act requirement that the notice and disclosure form provided to employees for purposes of conducting a background screening be a standalone document. On April 20, 2016, the parties entered into a formal settlement agreement. The parties still must secure court approval of the settlement. In light of amounts previously expensed and anticipated recoveries from third parties, Kelly recorded an accrual in the fourth quarter of 2015 of \$4.1 million (in accounts payable and accrued liabilities on the consolidated balance sheet) to reflect the expected cost of the tentative settlement.

The Company is continuously engaged in litigation arising in the ordinary course of its business, such as matters alleging employment discrimination, alleging wage and hour violations or enforcing the restrictive covenants in the Company's employment agreements. The Company has recently experienced an increase in its litigation volume, including cases where

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

claimants seek class action certification. While there is no expectation that any of these matters will have a material adverse effect on the Company's results of operations, financial position or cash flows, litigation is always subject to inherent uncertainty and the Company is not able to reasonably predict if any matter will be resolved in a manner that is materially adverse to the Company. At year-end 2016 and 2015, the gross accrual for litigation costs amounted to \$9.2 million and \$9.9 million, respectively, which are included in accounts payable and accrued liabilities in the consolidated balance sheet.

**17. Segment Disclosures**

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the Company's CODM (the Company's Chief Executive Officer and Chief Operating Officer) to determine resource allocation and assess performance. The Company's seven reporting segments are: (1) Americas Commercial, (2) Americas Professional and Technical ("Americas PT"), (3) Europe, Middle East and Africa Commercial ("EMEA Commercial"), (4) Europe, Middle East and Africa Professional and Technical ("EMEA PT"), (5) Asia Pacific Commercial ("APAC Commercial"), (6) Asia Pacific Professional and Technical ("APAC PT") and (7) Outsourcing and Consulting Group ("OCG").

The Commercial business segments within the Americas, EMEA and APAC regions represent traditional office services, contact-center staffing, marketing, electronic assembly, light industrial and, in the Americas, substitute teachers. The PT segments encompass a wide range of highly skilled temporary employees, including scientists, financial professionals, attorneys, engineers, IT specialists and healthcare workers. OCG includes recruitment process outsourcing ("RPO"), contingent workforce outsourcing ("CWO"), business process outsourcing ("BPO"), payroll process outsourcing ("PPO") and career transition/outplacement services. Corporate expenses that directly support the operating units have been allocated to the Americas, EMEA and APAC regions and OCG based on a work effort, volume, or in the absence of a readily available measurement process, proportionately based on revenue from services.

The Company regularly assesses its organizational structure, product/service offerings and information evaluated by the CODM to determine whether any changes have occurred that would impact its segment reporting structure. The completion of the TS Kelly Asia Pacific joint venture transaction (see Investment in TS Kelly Asia Pacific footnote) and the results of its annual strategic review will likely change how the Company allocates resources and analyzes performance, which may result in a change to the Company's segment reporting in 2017.

The following tables present information about the reported revenue from services and gross profit of the Company by segment, along with a reconciliation to consolidated earnings before taxes and equity in net earnings (loss) of affiliate, for 2016, 2015 and 2014. Segment information for 2016 is impacted by the transfer of the APAC Commercial, APAC PT and certain OCG businesses to TS Kelly Asia Pacific in the third quarter of 2016 as noted above. Additionally, OCG segment SG&A expenses for 2016 include a \$2.8 million out-of-period adjustment recorded in the fourth quarter related to certain aged accounts receivable recorded prior to 2015 at a subsidiary in Germany. The correction did not have a material effect on any of the periods impacted.

Asset information by reportable segment is not presented, since the Company does not produce such information internally nor does it use such data to manage its business.



**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	2016	2015	2014
	(In millions of dollars)		
<b>Revenue from Services:</b>			
Americas Commercial	\$ 2,548.0	\$ 2,604.3	\$ 2,609.6
Americas PT	947.1	971.9	956.0
Total Americas Commercial and PT	3,495.1	3,576.2	3,565.6
EMEA Commercial	769.3	773.5	894.7
EMEA PT	168.8	171.5	190.3
Total EMEA Commercial and PT	938.1	945.0	1,085.0
APAC Commercial	170.7	347.2	351.8
APAC PT	18.3	40.5	40.4
Total APAC Commercial and PT	189.0	387.7	392.2
OCG	706.4	673.8	586.8
Less: Intersegment revenue	(51.8)	(64.5)	(66.9)
Consolidated Total	\$ 5,276.8	\$ 5,518.2	\$ 5,562.7

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	2016	2015	2014
	(In millions of dollars)		
<b>Earnings from Operations:</b>			
Americas Commercial gross profit	\$ 402.4	\$ 400.3	\$ 379.6
Americas PT gross profit	162.7	165.0	155.9
Americas Region gross profit	565.1	565.3	535.5
Americas Region SG&A expenses	(457.1)	(456.6)	(446.8)
Americas Region Earnings from Operations	108.0	108.7	88.7
EMEA Commercial gross profit	103.9	106.6	130.6
EMEA PT gross profit	34.2	36.6	42.9
EMEA Region gross profit	138.1	143.2	173.5
EMEA Region SG&A expenses	(124.9)	(129.2)	(161.4)
EMEA Region Earnings from Operations	13.2	14.0	12.1
APAC Commercial gross profit	23.3	45.3	47.5
APAC PT gross profit	5.0	10.5	12.7
APAC Region gross profit	28.3	55.8	60.2
APAC Region SG&A expenses	(22.7)	(46.7)	(57.7)
APAC Region Earnings from Operations	5.6	9.1	2.5
OCG gross profit	179.3	160.6	143.6
OCG SG&A expenses	(153.4)	(132.1)	(127.3)
OCG Earnings from Operations	25.9	28.5	16.3
Less: Intersegment gross profit	(4.5)	(4.6)	(4.4)
Less: Intersegment SG&A expenses	4.5	4.6	4.4
Net Intersegment Activity	—	—	—
Corporate	(89.5)	(93.6)	(97.7)
Consolidated Total	63.2	66.7	21.9
Gain on investment in TS Kelly Asia Pacific	87.2	—	—
Other Expense, Net	(0.7)	(3.5)	(2.8)
Earnings before taxes and equity in net earnings (loss) of affiliate	\$ 149.7	\$ 63.2	\$ 19.1

A summary of revenue from services by geographic area for 2016, 2015 and 2014 follows:

	2016	2015	2014
	(In millions of dollars)		
<b>Revenue From Services:</b>			
United States	\$ 3,722.5	\$ 3,705.2	\$ 3,535.8
International	1,554.3	1,813.0	2,026.9
<b>Total</b>	<b>\$ 5,276.8</b>	<b>\$ 5,518.2</b>	<b>\$ 5,562.7</b>

Foreign revenue is based on the country in which the legal subsidiary is domiciled. No single foreign country's revenue represented more than 10% of the consolidated revenues of the Company. No single customer represented more than 10% of the consolidated revenues of the Company.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

A summary of long-lived assets information by geographic area as of year-end 2016 and 2015 follows:

	2016	2015
	(In millions of dollars)	
<b>Long-Lived Assets:</b>		
United States	\$ 69.5	\$ 75.8
International	11.3	13.1
<b>Total</b>	<b>\$ 80.8</b>	<b>\$ 88.9</b>

Long-lived assets include primarily property and equipment. No single foreign country's long-lived assets represented more than 10% of the consolidated long-lived assets of the Company.

**18. New Accounting Pronouncements**

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18 amending the presentation of restricted cash within the statement of cash flows. The new guidance requires that restricted cash be included within cash and cash equivalents on the statement of cash flows. The ASU is effective retrospectively for reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 clarifying how entities should classify certain cash receipts and payments on the statement of cash flows. The new guidance addresses classification of cash flows related to the following transactions: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies; 6) distributions received from equity method investees; and 7) beneficial interests in securitization transaction. ASU 2016-15 also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 and requires retrospective application. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13 amending how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model which is a new impairment model based on expected losses. Under this model, an entity recognizes an allowance for expected credit losses based on historical experience, current conditions and forecasted information rather than the current methodology of delaying recognition of credit losses until it is probable a loss has been incurred. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019 with early adoption permitted for annual reporting periods beginning after December 15, 2018. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. This ASU applies to trade accounts receivable and may have an impact on our calculation of the allowance for uncollectible accounts receivable.

In March 2016, the FASB issued ASU 2016-09 amending several aspects of share-based payment accounting. This guidance requires all excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled, with prospective application required. The guidance also changes the classification of such tax benefits or tax deficiencies on the statement of cash flows from a financing activity to an operating activity, with retrospective or prospective application allowed. Additionally, the guidance requires the classification of employee taxes paid when an employer withholds shares for tax-withholding purposes as a financing activity on the statement of cash flows, with retrospective application required. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 amending the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability will initially be measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S. Generally Accepted Accounting Principles ("GAAP"), the presentation of expenses and cash flows will depend primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

additional information about the nature of an organization's leasing activities. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and requires modified retrospective application. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. As our branch operations are primarily conducted in leased facilities, this ASU will likely have a material impact on our balance sheet, may have a material impact to our statement of earnings and will require us to disclose additional information about our leasing activities. We plan to establish a cross-functional implementation team in 2017 to further assess the impact of the standard.

In January 2016, the FASB issued ASU 2016-01 amending the current guidance for how entities measure certain equity investments, the accounting for financial liabilities under the fair value option, and the presentation and disclosure requirements relating to financial instruments. The new guidance requires entities to use fair value measurement for equity investments in unconsolidated entities, excluding equity method investments, and to recognize the changes in fair value in net income at the end of each reporting period. Under the new standard, for any financial liabilities in which the fair value option has been elected, the changes in fair value due to instrument-specific credit risk must be recognized separately in other comprehensive income. Presentation and disclosure requirements under the new guidance require public business entities to use the exit price when measuring the fair value of financial instruments measured at amortized cost. In addition, financial assets and liabilities must now be presented separately in the notes to the financial statements and grouped by measurement category and form of financial asset. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is only permitted for the financial liability provision. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. This standard will impact how we recognize changes in the fair value of our available-for-sale investment and could have a material impact on our financial statements.

In August 2014, the FASB issued ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, which is currently performed by the external auditors. Management will be required to perform this assessment for both interim and annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. This ASU is effective for annual periods ending after December 15, 2016 and for interim periods thereafter. The adoption of this guidance did not have a material effect on our financial statements.

In May 2014, the FASB issued new revenue recognition guidance under ASU 2014-09 that will supersede the existing revenue recognition guidance under U.S. GAAP. The new standard focuses on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of the new standard is for companies to recognize revenue when it transfers the promised goods or services to its customers at an amount that represents what the company expects to be entitled to in exchange for those goods or services. In July 2015, the FASB deferred the effective date by one year (ASU 2015-14). This ASU will now be effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2017. Early adoption is permitted, but not before the original effective date of December 15, 2016. Since the issuance of the original standard, the FASB has issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12); and 5) technical corrections and improvements (ASU 2016-20). The new standard will be effective for us beginning January 1, 2018.

We established a cross-functional implementation team consisting of representatives from across our business segments and various departments. We utilized a bottoms-up approach to analyze the impact of the standard on our various revenue streams by reviewing our current contracts with customers, accounting policies and business practices to identify potential differences that would result from applying the requirements of the new standard. In addition, we identified, and are in the process of implementing, appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new standard.

We have been closely monitoring FASB activity related to the new standard to conclude on specific interpretive issues. During 2016, we made significant progress toward completing our evaluation of the potential impact that adopting the new standard will have on our consolidated results of operations, consolidated financial position and cash flows. We expect to implement the standard with the modified retrospective approach beginning January 1, 2018, which recognizes the cumulative effect of application recognized on that date.

Revenue on the majority of our contracts with customers will continue to be recognized over time as services are rendered. The impact of adopting ASU 2014-09 primarily relates to deferring contract costs and estimating variable (or contingent) consideration when the estimation will not result in the reversal of that revenue in subsequent periods.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have a significant impact on our consolidated financial statements and related disclosures.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**19. Related Party Transactions**

Terence E. Adderley, the Executive Chairman and Chairman of the Board of our board of directors, and certain trusts with respect to which he acts as trustee or co-trustee, control approximately 93% of the outstanding shares of Kelly Class B common stock, which is the only class of our common stock entitled to voting rights. Other than compensation relative to his services as executive chairmen of the Company, there were no material transactions between the Company and Terence E. Adderley in 2016 or 2015.

See Investment in TS Kelly Asia Pacific footnote for a description of related party activity with TS Kelly Asia Pacific joint venture.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**20. Selected Quarterly Financial Data (unaudited)**

	Fiscal Year 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter <sup>(1)</sup>	Year
	(In millions of dollars except per share data)				
Revenue from services	\$ 1,349.1	\$ 1,375.5	\$ 1,247.8	\$ 1,304.4	\$ 5,276.8
Gross profit	232.7	230.5	215.1	228.0	906.3
SG&A expenses	218.0	220.6	196.3	208.2	843.1
Restructuring charges included in SG&A expenses	—	3.4	—	—	3.4
Gain on investment in TS Kelly Asia Pacific	—	—	87.2	—	87.2
Net earnings	11.2	8.9	80.9	19.8	120.8
Basic earnings per share <sup>(2)</sup>	0.29	0.23	2.08	0.51	3.10
Diluted earnings per share <sup>(2)</sup>	0.29	0.23	2.06	0.51	3.08
Dividends per share	0.05	0.075	0.075	0.075	0.275

	Fiscal Year 2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter <sup>(3)</sup>	Year
	(In millions of dollars except per share data)				
Revenue from services	\$ 1,320.6	\$ 1,385.0	\$ 1,351.0	\$ 1,461.6	\$ 5,518.2
Gross profit	220.3	222.3	228.2	249.5	920.3
SG&A expenses	208.2	210.8	211.6	223.0	853.6
Net earnings	3.7	6.8	9.1	34.2	53.8
Basic earnings per share <sup>(2)</sup>	0.10	0.18	0.23	0.88	1.39
Diluted earnings per share <sup>(2)</sup>	0.10	0.18	0.23	0.88	1.39
Dividends per share	0.05	0.05	0.05	0.05	0.20

(1) SG&A expenses in the fourth quarter includes a \$2.8 million out-of-period adjustment related to certain aged accounts receivable recorded prior to 2015 at a subsidiary in Germany. The correction did not have a material effect on any of the periods impacted.

(2) Earnings per share amounts for each quarter are required to be computed independently and may not equal the amounts computed for the total year.

(3) Fourth Quarter 2015 included 14 weeks.

**KELLY SERVICES, INC. AND SUBSIDIARIES**  
**SCHEDULE II - VALUATION RESERVES**  
(In millions of dollars)

Description	Balance at beginning of year	Additions		Currency exchange effects	Deductions from reserves	Balance at end of year
		Charged to costs and expenses	Charged to other accounts			
<u>Fiscal year ended January 1, 2017</u>						
Reserve deducted in the balance sheet from the assets to which it applies -						
Allowance for doubtful accounts	\$ 10.5	10.2	0.8 <sup>(1)</sup>	(0.8)	(8.2)	\$ 12.5
Deferred tax assets valuation allowance	\$ 50.9	2.4	—	(2.9)	(8.3)	\$ 42.1
<u>Fiscal year ended January 3, 2016</u>						
Reserve deducted in the balance sheet from the assets to which it applies -						
Allowance for doubtful accounts	\$ 10.7	3.7	—	(0.5)	(3.4)	\$ 10.5
Deferred tax assets valuation allowance	\$ 58.5	2.0	—	(5.3)	(4.3)	\$ 50.9
<u>Fiscal year ended December 28, 2014</u>						
Reserve deducted in the balance sheet from the assets to which it applies -						
Allowance for doubtful accounts	\$ 9.9	4.8	0.5 <sup>(1)</sup>	(1.9)	(2.6)	\$ 10.7
Deferred tax assets valuation allowance	\$ 56.3	7.5	—	(2.7)	(2.6)	\$ 58.5

(1) Adjustment to provision for sales allowances charged to revenue from services.

**INDEX TO EXHIBITS  
REQUIRED BY ITEM 601  
REGULATIONS S-K**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation, effective May 6, 2009 (Reference is made to Exhibit 3.1 to the Form 10-Q filed with the Commission on May 7, 2014, which is incorporated herein by reference).
3.2	By-laws, effective May 6, 2009 (Reference is made to Exhibit 3.2 to the Form 10-Q filed with the Commission on May 7, 2014, which is incorporated herein by reference).
10.1*	Kelly Services, Inc. Short-Term Incentive Plan, as amended and restated February 12, 2015 (Reference is made to Exhibit 10.1 to the Form 10-Q filed with the Commission on August 5, 2015, which is incorporated herein by reference).
10.2*	Kelly Services, Inc. Equity Incentive Plan, as amended and restated February 12, 2015 (Reference is made to Exhibit 10.2 to the Form 10-Q filed with the Commission on August 5, 2015, which is incorporated herein by reference).
10.3*	Kelly Services, Inc. Executive Severance Plan dated April 4, 2006, as amended November 8, 2007 (Reference is made to Exhibit 10.3 to the Form 10-Q filed with the Commission on November 7, 2012, which is incorporated herein by reference).
10.4*	Kelly Services, Inc. Non-Employee Directors Stock Option Plan (Reference is made to Exhibit 10.4 to the Form 10-Q filed with the Commission on May 11, 2011, which is incorporated herein by reference).
10.5*	Kelly Services, Inc. 2008 Non-Employee Directors Stock Plan (Reference is made to Exhibit 10.5 to the Form 10-K filed with the Commission on February 14, 2013, which is incorporated herein by reference).
10.6	Second amended and restated credit agreement, dated December 5, 2016 (Reference is made to Exhibit 10.6 to the Form 8-K filed with the Commission on December 9, 2016, which is incorporated herein by reference).
10.12*	Kelly Services, Inc. 2008 Management Retirement Plan – Post 2004 (Reference is made to Exhibit 10.12 to the Form 10-Q filed with the Commission on November 7, 2012, which is incorporated herein by reference).
10.13*	First Amendment to the Kelly Services, Inc. 2008 Management Retirement Plan (Reference is made to Exhibit 10.13 to the Form 10-Q filed with the Commission on November 7, 2012, which is incorporated herein by reference).
10.14	Pledge and Security Agreement, dated September 28, 2009 (Reference is made to Exhibit 10.14 to the Form 8-K filed with the Commission on September 29, 2009, which is incorporated herein by reference).
10.15	First Amended and Restated Purchase Agreement, dated December 5, 2016 (Reference is made to Exhibit 10.15 to the Form 8-K filed with the Commission on December 9, 2016, which is incorporated herein by reference).
10.21*	Amendment to Kelly Services, Inc. 2008 Management Retirement Plan. (Reference is made to Exhibit 10.21 to the Form 8-K filed with the commission on August 11, 2014, which is incorporated herein by reference.)
14	Code of Business Conduct and Ethics, adopted August 8, 2016.
21	Subsidiaries of Registrant.



**INDEX TO EXHIBITS  
REQUIRED BY ITEM 601,  
REGULATION S-K (continued)**

<u>Exhibit No.</u>	<u>Description</u>
23	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney.
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Indicates a management contract or compensatory plan or arrangement.

**KELLY SERVICES, INC.****CODE OF BUSINESS CONDUCT AND ETHICS****August 8, 2016**

Kelly Services, Inc. ("the Company") is committed to doing the right thing, conducting ourselves in a legal, ethical, and trustworthy manner, upholding our regulatory obligations, and complying with both the letter and spirit of our business policies and applicable local laws in the countries where we operate. The Board of Directors (the "Board") of the Company has adopted the following Code of Business Conduct and Ethics (the "Code") for itself and the officers and employees of the Company and its subsidiaries.

The Code is intended to help us recognize and deal with ethical issues, deter wrongdoing, provide mechanisms to report, and prevent dishonest or unethical conduct and foster a culture of honesty and accountability.

Each of us has a personal responsibility to conduct ourselves, and ensure that our suppliers, agents, and representatives are aware of their obligation to conduct themselves, in a legal, ethical way and to comply with both the letter and the spirit of this Code.

No code or policy can anticipate every situation that may arise. This Code is intended to serve as a guide. Employees are encouraged to ask their manager questions about particular circumstances that may involve the provisions of this Code. Employees also may present their questions to the Vice President, Internal Audit, or the General Counsel.

**Conflict of Interest**

A "conflict of interest" occurs when our individual personal interests interfere, or appear to interfere, in any way with the interests of the Company. Each of us must act with integrity and avoid any relationship or activity that might impair our ability to make objective and fair decisions in the course of fulfilling our job responsibilities. The way we conduct ourselves in the work environment impacts our reputation and the trust we maintain with customers, employees, candidates, applicants, vendors, and suppliers. By avoiding conflicts of interest, this group of Kelly stakeholders clearly understands our commitment to maintaining the integrity of the Company.

This Code does not attempt to describe all possible conflicts of interest which could develop. Some of the more common conflicts from which we should refrain, are:

- an employee or a family member receiving an improper personal benefit as a result of the employee's position with the Company. A "family member" means a spouse, parents, children, siblings (whether by blood, marriage, or adoption), or anyone who resides in an employee's home;
- knowingly engaging in any conduct or activity that is inconsistent with the Company's best interests or that disrupts or impairs the Company's relationship with any person or entity with which the Company has or proposes to enter into a business or contractual relationship;
- accepting compensation, in any form, from any source other than the Company, which affects job performance in any way;
- offering, giving, or receiving gifts to or from anyone who deals with the Company in cases where the gift is being made to influence our actions in our position with the Company, or where acceptance of the gifts could create the appearance of an impropriety.

Any situation that involves, or may reasonably be expected to involve, a conflict of interest with the Company must be disclosed immediately to the Vice President, Internal Audit or the General Counsel.

Directors and executive officers must seek determination and prior authorization or approval of potential conflicts of interest from the Audit Committee.

### **Anti-Bribery/Anti-Corruption**

We take pride in conducting our business with integrity and are committed to abiding by all applicable laws in the countries where we operate. Each of us has an obligation to comply with the U.S. Foreign Corrupt Practices Act (“FCPA”) as well as all other country specific anti-bribery and anti-corruption laws. You may not give, promise, or offer anything of value, no matter how small, to any customer, government employee, or other person for the purpose of improperly influencing a decision, securing an advantage, avoiding a disadvantage, or obtaining or retaining business. If you engage in such behavior, you expose yourself and the company to civil and/or criminal liability, significant reputational harm, and undermine the trust that our customers, shareholders, and communities have placed in us. Each of us is required to take the FCPA and anti-bribery training provided by the Company and to certify compliance with the principles outlined in the training and this Code yearly. Any suspected violation should be reported immediately through Kelly Services’ Business Conduct & Ethics Reporting Program at 877.978.0049 or <https://www.integrity-helpline.com/kellyservices.jsp> or for Europe, <https://www.financial-integrity.com/kellyserviceseu.jsp> or to the Vice President, Internal Audit.

### **Insider Trading**

Individuals who have access to material non-public confidential information are not permitted to use or share the information for securities trading purposes (“insider trading”) or for any other purpose except the conduct of the Company’s business. It is always illegal to trade in Kelly securities (class A and class B common stock) or any related options or other rights while in possession of material non-public information, and it is also illegal to communicate or “tip” such information to others. Kelly has adopted an Insider Trading Policy that includes procedures applicable to everyone and also those that apply to the Company’s Board of Directors, executive officers, and other key employees (“Restricted Persons”). This document is also posted on Kelly’s website and is sent periodically to Restricted Persons in connection with certification of compliance.

### **Corporate Opportunities**

Each of us has a responsibility to the Company to advance its legitimate interests. We must not:

- personally take for ourselves or divert to others opportunities that are discovered through the use of Company property, information or our respective position;
- use Company employees, property, information, or our respective positions for personal gain; or
- compete with the Company, directly or indirectly, for business opportunities.

### **Confidentiality and Privacy**

Kelly is committed to safeguarding the integrity, availability, and confidentiality of Kelly’s information and information systems, as well as those entrusted to Kelly by its customers, employees, candidates, applicants, vendors, and suppliers. Accordingly, each of us are expected, as a condition of employment, to safeguard the data and systems from unauthorized use, disclosure, modification, destruction, or loss, by complying with Kelly’s global Privacy Statement, which can be found at <http://www.kellyservices.com>.

Confidential and private information includes personal data, as well as Company information that has not been made public, such as business plans, research or strategies, and inside financial information that could be used for personal gain. The Company’s Corporate Disclosure and Communications Policy contains additional details about external communications and the proper sharing of Company information.

As an employee of Kelly, you are personally responsible for any comments about, and on behalf of the Company, that you post to a social media network (e.g., Facebook, LinkedIn, Twitter, YouTube, blogs, or forums). When identifying yourself on these networks as a Kelly employee, you associate yourself with the Company, your colleagues, managers, and customers. Therefore, be mindful that your postings will be available to the general public, reflect on the Company’s reputation and business interests, and may not interfere with your work or create a conflict of interest between you and Kelly Services.

If you communicate about Kelly externally using online social media, you are expected to observe the guidelines of Kelly's Social Media Policy.

### **Protection and Proper Use of Company Assets**

We must each protect the Company's assets and ensure their efficient use. No one is to use Company assets for personal benefit.

### **Fair Dealing**

We have a responsibility to deal fairly with each other and our customers, employees, applicants, candidates, and suppliers. No one must take unfair advantage of anyone else through manipulation, concealment, abuse of confidential information, misrepresentation of material facts, or any other unfair dealing practices.

### **Behavior in the Workplace**

Kelly is committed to maintaining a work environment which promotes individual dignity and mutual respect and following all applicable laws and legislation related to labor and human rights. Inappropriate behavior in the workplace, which extends to business travel and after-hour Company sponsored events, will result in disciplinary action, up to and including termination.

It is the policy of Kelly to protect the employment rights of qualified applicants and employees regardless of an individual's race, color, age, religion, national origin, genetics, sexual orientation, gender identity/expression, disability, and/or other protected categories under applicable laws.

It is the policy of Kelly to comply with all applicable laws concerning the employment of persons with disabilities. Consistent with that commitment, it is Kelly's policy not to discriminate against qualified individuals with disabilities in regard to application procedures, hiring, advancement, discharge, compensation, training, or other terms, conditions, and privileges of employment.

Any hostile conduct directed at an individual based on his or her race, color, age, religion, national origin, ethnicity, gender, sexual orientation, gender identity/expression, or disability is expressly prohibited. Sexual advances, requests for sexual favors, other unwanted verbal or physical conduct, or communication of a sexual nature is considered inappropriate behavior in the workplace and will not be tolerated.

To avoid perceptions of favoritism, conflicts of interest, lack of confidentiality, unfair treatment, or potential liability, 1) a relative of an employee, 2) a person living in the household of an employee, or 3) a person in a dating, sexual, romantic, or other intimate relationship with an employee, should not be hired or transferred into a position that results in him or her being in the same chain of command as that employee without the prior written approval of the Chief Human Resources Officer (the "CHRO") or HR Designee. In the event circumstances develop between employees that would have required the written approval noted above, both employees are required to report the circumstance to the CHRO or HR Designee.

Kelly believes that violence in the workplace is unacceptable. In order to help protect our co-workers and ourselves, we have an obligation to immediately report any situation involving violence, threats, bullying, or intimidation. If you have concerns about the immediate safety of yourself or others, please contact local authorities before reporting the situation internally.

Kelly strives to ensure a safe workplace for all of its employees. We are each responsible for paying close attention to our surroundings, following all safety rules, and reporting any unsafe conditions. The use of alcohol or illegal drugs while at work is not permitted as it can prevent us from thinking clearly and can endanger the safety of others.

### **Compliance with Laws, Rules and Regulations**

Each of us shall, and shall ensure that our suppliers, agents, and representatives are aware of their obligation to, comply with all laws, rules, regulations applicable to the Company including the Foreign Corrupt Practices Act, and other anti-corruption and anti-bribery laws, labor and employment laws, antitrust laws, and insider trading laws, applicable health, safety, and environmental laws, applicable data privacy and protection laws, and all policies established by the Company.

### **Risk Tolerance**

Risk is inherent in the pursuit of any worthy business objective. Although risk cannot be eliminated, not all risks are justified or appropriate. We are willing to accept appropriate business risks that are within our tolerance and assumed in pursuit of a suitable reward. We have no appetite for activity that endangers our employees or others, puts Kelly's financial well-being at risk, or is contrary to our Vision, Character, and Values.

We expect all Kelly employees to follow these principles as set forth in Kelly's Risk Appetite and Tolerance Statement in their daily business conduct.

### **Anti-Human Trafficking**

Kelly has a zero-tolerance policy against all forms of human trafficking and related activities. Kelly is committed to globally protecting against trafficking in any persons, including employees and candidates. Kelly's policy statement regarding Human Trafficking is available on the Company's website at <http://kellyservices.com/Global/Human-Trafficking-Policy/>

### **Reporting Dishonest or Unethical Behavior**

When in doubt about the best course of action in a particular situation, employees should talk to their managers or other appropriate personnel. Known or suspected violations of laws, rules, and regulations applicable to the Company, of this Code or any Company policy, must be promptly reported to Kelly Services' Business Conduct & Ethics Reporting Program at 877.978.0049 or <https://www.integrity-helpline.com/kellyservices.jsp> or <https://www.financial-integrity.com/kellyserviceseu.jsp> for Europe. Subject to applicable laws, anonymous reporting will be permitted through Kelly's Business Code and Ethics Reporting Program. Retaliation of any kind against any director, officer, or employee for reports made in good faith is expressly prohibited and will result in corrective action, including termination of employment.

It is the Company's responsibility to conduct a prompt investigation of any complaint of a violation or alleged violation of this Code. If an employee does not feel that a reported violation has been addressed, he or she should follow up through the Kelly Business Code and Ethics Reporting Program described above or directly with the Vice President, Internal Audit or the General Counsel.

### **Public Company Reporting**

The Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer, and their designees (the "senior financial officers") have the additional responsibility to file with the U.S. Securities and Exchange Commission full, fair, timely, and understandable reports and documents; these same disclosure requirements apply to all of the Company's public communications. In addition to the reporting requirements set forth elsewhere in this Code, senior financial officers must report any known or suspected violations of the Code to the Audit Committee.

### **Global Policies**

Kelly maintains specific policies that cover various areas of conduct and governance. The following are global policies and statements that all employees are expected to understand and honor. Links to those policies that can be found on our public website are included below:

- **Anti-Bribery Training**
- **Code of Business Conduct and Ethics**
- **Corporate Disclosure and Communications**
- **Corporate Social Responsibility** <http://kellyservices.com/Global/Corporate-Social-Responsibility-Policy-Statement/#.V3aE6E32aM8>

- **Expense and Entertainment**
- **Human Trafficking** <http://kellyservices.com/Global/Human-Trafficking-Policy/>
- **Information Security**
- **Privacy Statement** [http://kellyservices.com/Global/Privacy\\_Statement/](http://kellyservices.com/Global/Privacy_Statement/)
- **Risk Appetite and Tolerance Statement**
- **Social Media**
- **Travel**

**Failure to Comply; Compliance Procedures**

The failure by any director, officer, or employee to comply with the laws, rules, or regulations governing the Company's business, this Code, or any Company policy will constitute grounds for corrective action, up to and including termination of employment or engagement. Reports of known or suspected violations will be promptly investigated by the appropriate function, which may include Audit, Human Resources or Law.

Reviewed and adopted by Board of Directors August 8, 2016.

## SUBSIDIARIES OF REGISTRANT

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Services (Canada), Ltd.	Canada	Kelly Services
Kelly Global Business Services, LLC	Michigan	Kelly Services
Kelly Services, Global, LLC	Delaware	Kelly Services
Kelly Services, USA, LLC	Delaware	Kelly Services
Kelly Properties, LLC	Delaware	Kelly Properties
Kelly Receivables Funding, LLC	Delaware	Kelly Receivables Funding
Kelly Receivables Services, LLC (a subsidiary of Kelly Properties, LLC)	Delaware	Kelly Receivables Services
Kelly Services (Ireland), Ltd. (a subsidiary of Kelly Properties, LLC)	Delaware	Kelly Services
Kelly Services (UK) Ltd. (a subsidiary of Kelly Services Management S.a.r.l.)	United Kingdom	Kelly Services, Ltd.
Kelly Payroll Services Limited (a subsidiary of Kelly Services (UK) Ltd.)	United Kingdom	Kelly Services, Ltd.
Toner Graham Limited (a subsidiary of Kelly Services (UK) Ltd.)	United Kingdom	Toner Graham
Kelly Services Outsourcing and Consulting Group Australia, Ltd.	Delaware	Kelly Services
Kelly Services Outsourcing and Consulting Group New Zealand, Ltd.	Delaware	Kelly Services
Kelly Services of Denmark, Inc.	Delaware	Kelly Services
Kelly Services (Nederland), B.V.	Netherlands	Kelly Services
Kelly Administratiekantoor, B.V. (a subsidiary of Kelly Services (Nederland) B.V.)	Netherlands	Kelly Services
Kelly Managed Services (Nederland) B.V. (a subsidiary of Kelly Services (Nederland) B.V.)	Netherlands	Kelly Services

**SUBSIDIARIES OF REGISTRANT (continued)**

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Services Norge AS (a subsidiary of Kelly Services Management S.a.r.l.)	Norway	Kelly Services
Kelly Services Management AS (a subsidiary of Kelly Services Norge AS)	Norway	Kelly Services
Kelly Services Mexico, S.A. de C. V. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Mexico	Kelly Services
Opciones De Servicio En Mexico, S.A. de C.V. (a subsidiary of Kelly Services Mexico, S.A. de C.V. and Kelly Properties, LLC)	Mexico	Kelly Services
QSM, S.A. de C.V. (a subsidiary of Kelly Services Mexico, S.A. de C.V. and Kelly Properties, LLC)	Mexico	Kelly Services
Kelly Services (Suisse), SA (a subsidiary of Kelly Services Management S.a.r.l.)	Switzerland	Kelly Services
Kelly Services Management S.a.r.l. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Switzerland	Kelly Services
Kelly Services Outsourcing and Consulting Group Sarl (a subsidiary of Kelly Services (Suisse), SA)	Switzerland	Kelly Services
Kelly Services Management SCS (a subsidiary of Kelly Services Management S.a.r.l. and Kelly Services (Suisse), SA)	France	Kelly Services
Kelly Services France, S.A.S. (a subsidiary of Kelly Services Management SCS)	France	Kelly Services
Kelly Services, S.A.S. (a subsidiary of Kelly Services France, S.A.S.)	France	Kelly Services
Competences RH, S.a.r.l. (a subsidiary of Kelly Services France, S.A.S.)	France	Competences RH
Kelly Services Luxembourg, S.a.r.l.	Luxembourg	Kelly Services
Kelly Outsourcing & Consulting Group, S.a.r.l. (a subsidiary of Kelly Services Luxembourg, S.a.r.l.)	Luxembourg	Kelly Services



**SUBSIDIARIES OF REGISTRANT (continued)**

## Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Services S.p.A. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Italy	Kelly Services
Kelly Management Services, S.r.l. (a subsidiary of Kelly Services S.p.A.)	Italy	Kelly Management Services
Kelly Services CIS, Inc.	Delaware	Kelly Services
LLC Kelly Services CIS (a subsidiary of Kelly Services Management Sarl)	Russia	Kelly Services
LLC Kelly Services IT solutions (a subsidiary of LLC Kelly Services CIS and Kelly Services Management Sarl)	Russia	Kelly Services
Kelly Services Deutschland GmbH	Germany	Kelly Services
access KellyOCG GmbH (a subsidiary of Kelly Services Deutschland GmbH)	Germany	access
Kelly Services GmbH (a subsidiary of access KellyOCG GmbH)	Germany	Kelly Services
access Recruiting Services GmbH (a subsidiary of access KellyOCG GmbH)	Austria	access
Kelly Services Interim (Belgium) SPRL (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Belgium	Kelly Services
Kelly Services Outsourcing and Consulting Group SA/NV (a subsidiary of Kelly Services Interim (Belgium) SPRL and Kelly Properties, LLC)	Belgium	Kelly Services
Kelly Services – Empresa De Trabalho Temporario, Unipessoal, Lda. (a subsidiary of Kelly Services Management S.a.r.l.)	Portugal	Kelly Services
Kelly Services – Gestao De Processos, Lda. (a subsidiary of Kelly Services – Empresa De Trabalho Temporario, Unipessoal, Lda. and Kelly Services Management S.a.r.l.)	Portugal	Kelly Services

**SUBSIDIARIES OF REGISTRANT (continued)**

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Services Healthcare Unipessoal, Lda. (a subsidiary of Kelly Services – Gestao De Processos, Lda.)	Portugal	Kelly Services
Kelly Services Hungary Staffing, LLC (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Hungary	Kelly Services
Kelly Services Poland Sp.zo.o.	Poland	Talents
Kelly OCG Singapore PTE. LTD	Singapore	Kelly OCG Singapore
Kelly OCG Malaysia Sdn. Bhd.	Malaysia	Kelly Services
Kelly Outsourcing and Consulting Group India Pte. Ltd.	India	Kelly Services
Kelly Services Japan, Inc.	Japan	Kelly Services
Kelly Investment and Consulting (Shanghai) Co., Ltd.	China	Kelly Investment and Consulting
Kelly Services Brasil Investimentos E Participacoes Ltda. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Brazil	Kelly Services
Kelly Services Brasil Investimentos E Participacoes II Ltda. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Brazil	Kelly Services
Kelly Services Do Brasil Recursos Humanos Ltda (a subsidiary of Kelly Services Brasil Investimentos E Participacoes II Ltda. and Kelly Services Brasil Investimentos E Participacoes Ltda.)	Brazil	Kelly Services
Kelly Services Recursos Humanos Ltda. (a subsidiary of Kelly Services Do Brasil Recursos Humanos Ltda and Kelly Services Brasil Investimentos E Participacoes II Ltda.)	Brazil	Kelly Services

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-114837, 333-125091, 333-166798 and 333-201165) of Kelly Services, Inc. of our report dated February 17, 2017 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
**PricewaterhouseCoopers LLP**  
**Detroit, Michigan**  
**February 17, 2017**

**POWER OF ATTORNEY**

Each of the undersigned directors of Kelly Services, Inc. does hereby appoint Olivier G. Thiroit and Peter W. Quigley, signing singly, his or her true and lawful attorneys, to execute for and on behalf of the undersigned Form 10-K Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ending January 1, 2017, to be filed with the Securities and Exchange Commission in Washington, D.C. under the provisions of the Securities Exchange Act of 1934, as amended, and any and all amendments to said Form 10-K whether said amendments add to, delete from, or otherwise alter the Form 10-K, or add to or withdraw any exhibit or exhibits, schedule or schedules to be filed therewith, and any and all instruments necessary or incidental in connection therewith, hereby granting unto said attorneys and each of them full power and authority to do and perform in the name and on behalf of each of the undersigned, and in any and all capacities, every act and thing whatsoever required or necessary to be done in the exercise of any of the rights and powers herein granted, as fully and to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and approving the acts of said attorneys and each of them.

IN WITNESS WHEREOF the undersigned have caused this Power of Attorney to be executed as of this 16<sup>th</sup> day of February, 2017.

/s/ Terence E. Adderley  
Terence E. Adderley

/s/ Carl T. Camden  
Carl T. Camden

/s/ Carol M. Adderley  
Carol M. Adderley

/s/ Robert S. Cubbin  
Robert S. Cubbin

/s/ Jane E. Dutton  
Jane E. Dutton

/s/ Terrence B. Larkin  
Terrence B. Larkin

/s/ Conrad L. Mallett, Jr.  
Conrad L. Mallett, Jr.

/s/ Leslie A. Murphy  
Leslie A. Murphy

/s/ Donald R. Parfet  
Donald R. Parfet

/s/ Hirotooshi Takahashi  
Hirotooshi Takahashi

/s/ B. Joseph White  
B. Joseph White

**CERTIFICATIONS**

I, Carl T. Camden, certify that:

1. I have reviewed this annual report on Form 10-K of Kelly Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Carl T. Camden  
Carl T. Camden

President and  
Chief Executive Officer

**CERTIFICATIONS**

I, Olivier G. Thiot, certify that:

1. I have reviewed this annual report on Form 10-K of Kelly Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2017

/s/ Olivier G. Thiot  
Olivier G. Thiot

Senior Vice President and  
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kelly Services, Inc. (the "Company") on Form 10-K for the period ended January 1, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carl T. Camden, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2017

/s/ Carl T. Camden  
Carl T. Camden

President and  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Kelly Services, Inc. and will be retained by Kelly Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kelly Services, Inc. (the "Company") on Form 10-K for the period ended January 1, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Olivier G. Thirot, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2017

/s/ Olivier G. Thirot  
Olivier G. Thirot

Senior Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Kelly Services, Inc. and will be retained by Kelly Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



