

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 2, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

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

(I.R.S. Employer Identification No.)

999 WEST BIG BEAVER ROAD, TROY, MICHIGAN 48084

(Address of principal executive offices) (Zip Code)

(248) 362-4444

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year, if changed since last report.)

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 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 "small 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 Exchange Act).

Yes No

At October 28, 2016, 34,802,738 shares of Class A and 3,437,643 shares of Class B common stock of the Registrant were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
 (UNAUDITED)

(In millions of dollars except per share data)

	13 Weeks Ended		39 Weeks Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Revenue from services	\$ 1,247.8	\$ 1,351.0	\$ 3,972.4	\$ 4,056.6
Cost of services	1,032.7	1,122.8	3,294.1	3,385.8
Gross profit	215.1	228.2	678.3	670.8
Selling, general and administrative expenses	196.3	211.6	634.9	630.6
Earnings from operations	18.8	16.6	43.4	40.2
Gain on investment in TS Kelly Asia Pacific	87.2	—	87.2	—
Other expense, net	(0.4)	—	(1.4)	(3.5)
Earnings before taxes	105.6	16.6	129.2	36.7
Income tax expense	24.7	7.5	28.2	17.1
Net earnings	<u>\$ 80.9</u>	<u>\$ 9.1</u>	<u>\$ 101.0</u>	<u>\$ 19.6</u>
Basic earnings per share	\$ 2.08	\$ 0.23	\$ 2.59	\$ 0.51
Diluted earnings per share	\$ 2.06	\$ 0.23	\$ 2.58	\$ 0.51
Dividends per share	\$ 0.075	\$ 0.05	\$ 0.20	\$ 0.15
Average shares outstanding (millions):				
Basic	38.1	37.9	38.0	37.8
Diluted	38.4	37.9	38.3	37.8

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In millions of dollars)

	13 Weeks Ended		39 Weeks Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Net earnings	\$ 80.9	\$ 9.1	\$ 101.0	\$ 19.6
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net of tax benefit of \$1.8 million, \$0.2 million, \$1.7 million and \$0.4 million, respectively	1.8	(9.8)	13.1	(15.5)
Less: Reclassification adjustments included in net earnings	0.2	—	(0.1)	(0.2)
Foreign currency translation adjustments	2.0	(9.8)	13.0	(15.7)
Unrealized gains on investment, net of tax expense of \$0.6 million, \$8.9 million, \$4.3 million and \$12.7 million, respectively	1.3	16.4	8.8	23.0
Other comprehensive income	3.3	6.6	21.8	7.3
Comprehensive income	<u>\$ 84.2</u>	<u>\$ 15.7</u>	<u>\$ 122.8</u>	<u>\$ 26.9</u>

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In millions)

<u>ASSETS</u>	October 2, 2016	January 3, 2016
CURRENT ASSETS:		
Cash and equivalents	\$ 27.6	\$ 42.2
Trade accounts receivable, less allowances of \$11.1 and \$10.5, respectively	1,125.8	1,139.1
Prepaid expenses and other current assets	53.0	45.8
Total current assets	1,206.4	1,227.1
NONCURRENT ASSETS:		
Property and equipment:		
Property and equipment	271.6	361.8
Accumulated depreciation	(191.1)	(272.9)
Net property and equipment	80.5	88.9
Noncurrent deferred taxes	179.8	189.3
Goodwill, net	88.4	90.3
Investment in equity affiliate	113.6	9.4
Other assets	370.6	334.6
Total noncurrent assets	832.9	712.5
TOTAL ASSETS	\$ 2,039.3	\$ 1,939.6

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In millions)

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	October 2, 2016	January 3, 2016
CURRENT LIABILITIES:		
Short-term borrowings	\$ 8.7	\$ 55.5
Accounts payable and accrued liabilities	408.7	405.5
Accrued payroll and related taxes	276.9	268.1
Accrued insurance	26.8	26.7
Income and other taxes	56.9	60.0
Total current liabilities	778.0	815.8
NONCURRENT LIABILITIES:		
Accrued insurance	40.2	40.0
Accrued retirement benefits	153.9	141.0
Other long-term liabilities	50.7	47.4
Total noncurrent liabilities	244.8	228.4
Commitments and contingencies (see contingencies footnote)		
STOCKHOLDERS' EQUITY:		
Capital stock, \$1.00 par value		
Class A common stock, shares issued 36.6 at 2016 and 2015	36.6	36.6
Class B common stock, shares issued 3.5 at 2016 and 2015	3.5	3.5
Treasury stock, at cost		
Class A common stock, 1.9 shares at 2016 and 2.1 Shares at 2015	(38.5)	(43.7)
Class B common stock	(0.6)	(0.6)
Paid-in capital	26.2	25.4
Earnings invested in the business	906.8	813.5
Accumulated other comprehensive income	82.5	60.7
Total stockholders' equity	1,016.5	895.4
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,039.3	\$ 1,939.6

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In millions of dollars)

	13 Weeks Ended		39 Weeks Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Capital Stock				
Class A common stock				
Balance at beginning of period	\$ 36.6	\$ 36.6	\$ 36.6	\$ 36.6
Conversions from Class B	—	—	—	—
Balance at end of period	36.6	36.6	36.6	36.6
Class B common stock				
Balance at beginning of period	3.5	3.5	3.5	3.5
Conversions to Class A	—	—	—	—
Balance at end of period	3.5	3.5	3.5	3.5
Treasury Stock				
Class A common stock				
Balance at beginning of period	(41.5)	(48.4)	(43.7)	(49.2)
Issuance of restricted stock and other	3.0	2.1	5.2	2.9
Balance at end of period	(38.5)	(46.3)	(38.5)	(46.3)
Class B common stock				
Balance at beginning of period	(0.6)	(0.6)	(0.6)	(0.6)
Issuance of restricted stock and other	—	—	—	—
Balance at end of period	(0.6)	(0.6)	(0.6)	(0.6)
Paid-in Capital				
Balance at beginning of period	28.1	27.5	25.4	24.9
Issuance of restricted stock and other	(1.9)	(0.8)	0.8	1.8
Balance at end of period	26.2	26.7	26.2	26.7
Earnings Invested in the Business				
Balance at beginning of period	828.8	774.1	813.5	767.4
Net earnings	80.9	9.1	101.0	19.6
Dividends	(2.9)	(1.9)	(7.7)	(5.7)
Balance at end of period	906.8	781.3	906.8	781.3
Accumulated Other Comprehensive Income				
Balance at beginning of period	79.2	51.8	60.7	51.1
Other comprehensive income, net of tax	3.3	6.6	21.8	7.3
Balance at end of period	82.5	58.4	82.5	58.4
Stockholders' Equity at end of period	\$ 1,016.5	\$ 859.6	\$ 1,016.5	\$ 859.6

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions of dollars)

	39 Weeks Ended	
	October 2, 2016	September 27, 2015
Cash flows from operating activities:		
Net earnings	\$ 101.0	\$ 19.6
Noncash adjustments:		
Depreciation and amortization	16.0	16.6
Provision for bad debts	6.1	3.3
Stock-based compensation	5.5	4.6
Gain on investment in TS Kelly Asia Pacific equity affiliate	(87.2)	—
Other, net	(2.2)	(0.7)
Changes in operating assets and liabilities	(13.1)	(44.9)
Net cash from (used in) operating activities	26.1	(1.5)
Cash flows from investing activities:		
Capital expenditures	(7.8)	(12.3)
Net cash proceeds from investment in TS Kelly Asia Pacific equity affiliate	18.8	—
Investment in TS Kelly equity affiliate	—	(0.5)
Other investing activities	(0.4)	(0.4)
Net cash from (used in) investing activities	10.6	(13.2)
Cash flows from financing activities:		
Net change in short-term borrowings	(47.8)	(13.8)
Dividend payments	(7.7)	(5.7)
Other financing activities	0.4	0.2
Net cash used in financing activities	(55.1)	(19.3)
Effect of exchange rates on cash and equivalents	3.8	(4.2)
Net change in cash and equivalents	(14.6)	(38.2)
Cash and equivalents at beginning of period	42.2	83.1
Cash and equivalents at end of period	\$ 27.6	\$ 44.9

See accompanying unaudited Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Kelly Services, Inc. (the “Company,” “Kelly,” “we” or “us”) have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the results of the interim periods, have been made. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended January 3, 2016, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2016 (the 2015 consolidated financial statements). The Company’s third fiscal quarter ended on October 2, 2016 (2016) and September 27, 2015 (2015), each of which contained 13 weeks. The corresponding September year to date periods for 2016 and 2015 each contained 39 weeks.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the current year’s presentation.

2. Investment in TS Kelly Asia Pacific

On July 4, 2016, the Company and Temp Holdings Co., Ltd. (“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. The operating results of the Company’s interest in TS Kelly Asia Pacific will be accounted for on a one-quarter lag under the equity method. Accordingly, the consolidated financial statements for the third quarter of 2016 do not include operating results for TS Kelly Asia Pacific. In the fourth quarter, the Company will also receive a \$4.5 million post-close cash true-up adjustment from Temp Holdings. The Company’s interest in TS Kelly Workforce Solutions is expected to be transferred to TS Kelly Asia Pacific in the fourth quarter under the terms of the transaction agreement.

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 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.

As part of this transaction, the Company deconsolidated the goodwill related to the contributed entities in our APAC PT and OCG segments amounting to \$1.9 million.

The amount due to TS Kelly Asia Pacific was \$2.1 million as of third quarter-end 2016.

3. Fair Value Measurements

Trade accounts receivable, short-term borrowings, accounts payable, accrued liabilities and accrued payroll and related taxes 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 assets measured at fair value on a recurring basis on the consolidated balance sheet as of third quarter-end 2016 and year-end 2015 by fair value hierarchy level, as described below.

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

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 Third Quarter-End 2016			
	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	\$ 4.0	\$ 4.0	\$ —	\$ —
Available-for-sale investment	158.6	158.6	—	—
Total assets at fair value	\$ 162.6	\$ 162.6	\$ —	\$ —

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	—	—
Total assets at fair value	\$ 146.0	\$ 146.0	\$ —	\$ —

Money market funds as of third quarter-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. 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 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 gain, net of tax, of \$1.3 million for the third quarter of 2016 and \$16.4 million for the third quarter of 2015 was recorded in other comprehensive income, and in accumulated other comprehensive income, a component of stockholders' equity. The unrealized gain, net of tax, of \$8.8 million for September year to date 2016 and \$23.0 million for September year to date 2015 was recorded in other comprehensive income, as well as in accumulated other comprehensive income. The cost of this yen-denominated investment, which fluctuates based on foreign exchange rates, was \$20.4 million as of the third quarter-end 2016 and \$17.2 million at year-end 2015.

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

4. Restructuring

A summary of the global restructuring balance sheet accrual, primarily included in accrued payroll and related taxes, is detailed below (in millions of dollars).

Balance as of year-end 2015	\$ 0.5
Reductions for cash payments related to all restructuring activities	(0.4)
Balance as of first quarter-end 2016	0.1
Additions charged to Americas	2.2
Additions charged to EMEA	1.2
Reductions for cash payments related to all restructuring activities	(0.7)
Balance as of second quarter-end 2016	2.8
Reductions for cash payments related to all restructuring activities	(1.6)
Balance as of third quarter-end 2016	\$ 1.2

The remaining balance of \$1.2 million as of third quarter-end 2016 represents primarily severance costs, and the majority is expected to be paid by the end of 2016. No material adjustments are expected to be recorded.

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

5. Goodwill

The changes in the net carrying amount of goodwill as of third quarter-end 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 Third Quarter-End 2016		
	Goodwill, Gross	Accumulated Impairment Losses	Adjustments to Goodwill	Goodwill, Gross	Accumulated Impairment Losses	Goodwill, Net
(In millions of dollars)						
Americas						
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
EMEA						
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)	—
APAC						
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)
(UNAUDITED)

6. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component, net of tax, for the third quarter and September year to date 2016 and 2015 are included in the tables below. Amounts in parentheses indicate debits. Reclassification adjustments out of accumulated other comprehensive income, as shown in the tables below, were recorded in the other expense, net line item in the consolidated statement of earnings.

	Third Quarter 2016			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
(In millions of dollars)				
Beginning balance	\$ (11.6)	\$ 92.4	\$ (1.6)	\$ 79.2
Other comprehensive income before reclassifications	1.8	1.3	—	3.1
Amounts reclassified from accumulated other comprehensive income	0.2	—	—	0.2
Net current-period other comprehensive income	2.0	1.3	—	3.3
Ending balance	<u>\$ (9.6)</u>	<u>\$ 93.7</u>	<u>\$ (1.6)</u>	<u>\$ 82.5</u>
	September Year to Date 2016			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
(In millions of dollars)				
Beginning balance	\$ (22.6)	\$ 84.9	\$ (1.6)	\$ 60.7
Other comprehensive income before reclassifications	13.1	8.8	—	21.9
Amounts reclassified from accumulated other comprehensive income	(0.1)	—	—	(0.1)
Net current-period other comprehensive income	13.0	8.8	—	21.8
Ending balance	<u>\$ (9.6)</u>	<u>\$ 93.7</u>	<u>\$ (1.6)</u>	<u>\$ 82.5</u>
	Third Quarter 2015			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
(In millions of dollars)				
Beginning balance	\$ (8.9)	\$ 62.9	\$ (2.2)	\$ 51.8
Other comprehensive income (loss) before reclassifications	(9.8)	16.4	—	6.6
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current-period other comprehensive income (loss)	(9.8)	16.4	—	6.6
Ending balance	<u>\$ (18.7)</u>	<u>\$ 79.3</u>	<u>\$ (2.2)</u>	<u>\$ 58.4</u>

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

	September Year to Date 2015			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
	(In millions of dollars)			
Beginning balance	\$ (3.0)	\$ 56.3	\$ (2.2)	\$ 51.1
Other comprehensive income (loss) before reclassifications	(15.5)	23.0	—	7.5
Amounts reclassified from accumulated other comprehensive income	(0.2)	—	—	(0.2)
Net current-period other comprehensive income (loss)	(15.7)	23.0	—	7.3
Ending balance	\$ (18.7)	\$ 79.3	\$ (2.2)	\$ 58.4

7. Earnings Per Share

The reconciliation of basic and diluted earnings per share on common stock for the third quarter and September year to date 2016 and 2015 follows (in millions of dollars except per share data):

	Third Quarter		September Year to Date	
	2016	2015	2016	2015
Net earnings	\$ 80.9	\$ 9.1	\$ 101.0	\$ 19.6
Less: earnings allocated to participating securities	(1.8)	(0.2)	(2.3)	(0.5)
Net earnings available to common shareholders	\$ 79.1	\$ 8.9	\$ 98.7	\$ 19.1
Average shares outstanding (millions):				
Basic	38.1	37.9	38.0	37.8
Dilutive share awards	0.3	—	0.3	—
Diluted	38.4	37.9	38.3	37.8
Basic earnings per share	\$ 2.08	\$ 0.23	\$ 2.59	\$ 0.51
Diluted earnings per share	\$ 2.06	\$ 0.23	\$ 2.58	\$ 0.51

Potentially dilutive shares outstanding are primarily related to performance shares for the third quarter and September year to date 2016 and 2015. Stock options excluded from the computation of diluted earnings per share due to their anti-dilutive effect for the third quarter and September year to date 2016 and 2015 were not significant.

8. Stock-Based Compensation

Performance Shares

On February 17, 2016, 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. For the 2016 performance share 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.

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

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 will remeasure 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 third quarter-end 2016, the current fair value for financial measure performance shares was \$18.34.

The TSR performance shares also 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. 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 the third quarter 2016 and 2015, respectively, total compensation expense related to all performance shares was \$1.0 million and \$0.8 million, and the related tax benefit was \$0.4 million and \$0.3 million. For September year to date 2016 and 2015, respectively, total compensation expense related to all performance shares was \$3.1 million and \$1.1 million, and the related tax benefit was \$1.2 million and \$0.4 million.

9. Other Expense, Net

Included in other expense, net for the third quarter and September year to date 2016 and 2015 are the following:

	Third Quarter		September Year to Date	
	2016	2015	2016	2015
	(In millions of dollars)			
Interest income	\$ 0.2	\$ 0.1	\$ 0.3	\$ 0.3
Interest expense	(0.9)	(0.9)	(2.7)	(2.7)
Dividend income	—	—	0.6	0.4
Net loss on equity investment	—	(0.1)	(0.1)	(0.7)
Foreign exchange gain (loss)	0.3	0.9	0.5	(0.8)
Other expense, net	<u>\$ (0.4)</u>	<u>\$ —</u>	<u>\$ (1.4)</u>	<u>\$ (3.5)</u>

10. 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 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.

KELLY SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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11. Segment Disclosures

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the Company's chief operating decision makers ("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"), executive placement 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 Company may change how it allocates resources and analyzes performance, which may result in a change to the Company's segment reporting in the future.

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, for the third quarter and September year to date 2016 and 2015. 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 (see Investment in TS Kelly Asia Pacific footnote).

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.

	Third Quarter		September Year to Date	
	2016	2015	2016	2015
	(In millions of dollars)			
Revenue from Services:				
Americas Commercial	\$ 603.7	\$ 615.5	\$ 1,887.6	\$ 1,908.2
Americas PT	239.6	242.8	718.3	721.8
Total Americas Commercial and PT	843.3	858.3	2,605.9	2,630.0
EMEA Commercial	197.6	199.0	570.2	573.0
EMEA PT	41.7	43.6	126.4	126.8
Total EMEA Commercial and PT	239.3	242.6	696.6	699.8
APAC Commercial	—	83.2	170.7	259.1
APAC PT	—	9.9	18.3	30.7
Total APAC Commercial and PT	—	93.1	189.0	289.8
OCG	178.2	171.8	520.3	486.3
Less: Intersegment revenue	(13.0)	(14.8)	(39.4)	(49.3)
Consolidated Total	\$ 1,247.8	\$ 1,351.0	\$ 3,972.4	\$ 4,056.6

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	Third Quarter		September Year to Date	
	2016	2015	2016	2015
(In millions of dollars)				
Earnings from Operations:				
Americas Commercial gross profit	\$ 94.9	\$ 96.6	\$ 295.9	\$ 290.3
Americas PT gross profit	41.4	41.0	124.3	122.0
Americas Region gross profit	136.3	137.6	420.2	412.3
Americas Region SG&A expenses	(112.2)	(113.7)	(342.7)	(339.8)
Americas Region Earnings from Operations	24.1	23.9	77.5	72.5
EMEA Commercial gross profit	26.8	27.7	77.5	79.1
EMEA PT gross profit	8.2	9.4	25.6	27.2
EMEA Region gross profit	35.0	37.1	103.1	106.3
EMEA Region SG&A expenses	(30.6)	(31.8)	(94.1)	(99.5)
EMEA Region Earnings from Operations	4.4	5.3	9.0	6.8
APAC Commercial gross profit	—	10.7	23.3	34.9
APAC PT gross profit	—	2.5	5.0	8.1
APAC Region gross profit	—	13.2	28.3	43.0
APAC Region SG&A expenses	—	(11.1)	(22.7)	(35.5)
APAC Region Earnings from Operations	—	2.1	5.6	7.5
OCG gross profit	45.0	41.4	130.1	112.6
OCG SG&A expenses	(37.3)	(33.2)	(112.2)	(98.1)
OCG Earnings from Operations	7.7	8.2	17.9	14.5
Less: Intersegment gross profit	(1.2)	(1.1)	(3.4)	(3.4)
Less: Intersegment SG&A expenses	1.2	1.1	3.4	3.4
Net Intersegment Activity	—	—	—	—
Corporate	(17.4)	(22.9)	(66.6)	(61.1)
Consolidated Total	18.8	16.6	43.4	40.2
Gain on investment in TS Kelly Asia Pacific	87.2	—	87.2	—
Other Expense, Net	(0.4)	—	(1.4)	(3.5)
Earnings Before Taxes	\$ 105.6	\$ 16.6	\$ 129.2	\$ 36.7

12. New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.

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 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.

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

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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.

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 is not expected to 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); and 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12). The new standard will be effective for us beginning January 1, 2018 and we expect to implement the standard with the modified retrospective approach, which recognizes the cumulative effect of application recognized on that date. We are evaluating the impact of adoption on our consolidated results of operations, consolidated financial position and cash flows.

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.

Item 2. 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 professional/technical 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.

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 financial asset. Average days sales outstanding varies within and outside the U.S., but was 56 days on a global basis as of the 2016 third quarter end, 54 days as of the 2015 year end and 57 days as of the 2015 third quarter 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.

Fueled by our 2014 investments in higher-margin specialties and solutions, Kelly’s strong performance in 2015 reaffirmed our strategic path and enabled us to raise the cash dividend for our shareholders. With a year of proven execution behind us, we entered 2016 with renewed confidence. Early in the year, we announced plans to expand our joint venture with Temp Holdings and form one of the largest workforce solutions companies in the Asia-Pacific region, and have since completed that joint venture, TS Kelly Asia Pacific. Our U.S. branch network is delivering growth in PT staffing, and our global OCG business continues to expand its customer reach and gain third-party validation as a leading provider of talent supply chain management solutions.

In line with our strategy, we took actions during the second quarter of 2016 in the Americas and EMEA designed to increase operational efficiency and align our staffing operations with growth levels within their markets. As a result, we recorded \$3.4 million of restructuring expenses in the second quarter. Kelly's third quarter results confirm the actions taken as we continue our commitment to our strategy and to driving improved profitability within our operating segments:

- Earnings from operations for the third quarter of 2016 totaled \$18.8 million, compared to \$16.6 million in the third quarter of 2015. Conversion rate for the third quarter was 8.7%, compared to 7.3% in the same period last year.
- In the OCG segment, earnings from operations totaled \$7.7 million, compared to \$8.2 million the same period last year. OCG continued to deliver gross profit growth, but investments in additional headcount and sales resources lowered overall operating profit. Solid growth in BPO continues, which is a key driver of our strategic and financial progress.
- After strong demand in the first quarter, the U.S. staffing market softened in the second quarter and began to show signs of stabilization in the third quarter. Overall Americas PT revenue fell 1% year over year, though accounts serviced through our U.S. branch network delivered positive PT growth. We will need to continue to accelerate PT growth, particularly within accounts serviced through our centralized delivery model, to fully realize the expected benefit of our investments. Despite the softer U.S. market, the Americas region delivered consistent year-over-year earnings from operations.
- Despite uneven economic conditions, EMEA continues to execute against its strategy. For the quarter, EMEA delivered \$4.4 million of earnings from operations, compared to \$5.3 million a year ago.

Kelly remains focused on executing a well-formed 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 competitive, 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 measure our progress against both revenue and 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.

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
Total Company - Third Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 1,247.8	\$ 1,351.0	(7.6)%	(7.1)%
Staffing fee-based income	13.2	16.5	(19.9)	(19.3)
Gross profit	215.1	228.2	(5.8)	(5.3)
Total SG&A expenses	196.3	211.6	(7.3)	(6.9)
Earnings from operations	18.8	16.6	13.1	
Gross profit rate	17.2%	16.9%	0.3 pts.	
Expense rates:				
% of revenue	15.7	15.7	—	
% of gross profit	91.3	92.7	(1.4)	
Return on sales	1.5	1.2	0.3	
Conversion rate	8.7	7.3	1.4	

During the third quarter of 2016, we transferred our APAC staffing and certain APAC OCG businesses in exchange for a 49% interest in the TS Kelly Asia Pacific joint venture. Accordingly, third quarter 2016 results of operations reflect the impact of transferring these operations to the joint venture.

Total Company revenue from services for the third quarter of 2016 was down 7.6% in comparison to the prior year and down 7.1% on a CC basis. The decrease was due to the effect of the transfer of the APAC staffing operations, as well as the changes noted in the following Americas and EMEA region discussions.

The gross profit rate increased by 30 basis points, of which the transfer of APAC businesses accounted for 20 basis points. 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 7.3% on a reported basis and 6.9% on a CC basis. The reduction in SG&A expenses for the third quarter of 2016 reflects the transfer of APAC staffing operations, as well as decreases in expense in our staffing operations. These decreases were partially offset by an increase in SG&A expenses in OCG, reflecting continued investment in that operating segment. Also included in total SG&A expenses is a one-time savings of \$7.5 million related to the reduction in performance-based compensation expenses.

Income tax expense for the third quarter of 2016 was \$24.7 million, compared to \$7.5 million for the third quarter of 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 the reinstatement of the work opportunity credit program and improved non-taxable investment income. Valuation allowances in certain foreign countries could be reduced up to \$7 million in the near term if future taxable income is sufficient to make it more likely than not that deferred tax assets will be realizable in those jurisdictions.

Diluted earnings per share for the third quarter of 2016 were \$2.06, as compared to \$0.23 for the third quarter of 2015.

Total Americas - Third Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 843.3	\$ 858.3	(1.8)%	(1.3)%
Staffing fee-based income	8.6	8.5	0.6	0.7
Gross profit	136.3	137.6	(1.0)	(0.6)
Total SG&A expenses	112.2	113.7	(1.4)	(1.2)
Earnings from operations	24.1	23.9	1.0	
Gross profit rate	16.2%	16.0%	0.2 pts.	
Expense rates:				
% of revenue	13.3	13.2	0.1	
% of gross profit	82.3	82.7	(0.4)	
Return on sales	2.9	2.8	0.1	

The change in Americas revenue from services on a reported basis 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 increase in average bill rates was due to wage rate inflation and the resulting impact on the bill rate. Americas represented 68% of total Company revenue in the third quarter of 2016 and 64% in the third quarter of 2015.

Revenue in our Commercial segment was down 2% on a reported basis and down 1% on a CC basis in comparison to the prior year. The lower revenue was primarily due to a decrease in our office services volume in both our branch-based and centralized delivery models. These decreases were partially offset by an increase in our educational staffing business and in our light industrial product due to new customer wins.

In the PT segment, reported and CC revenue was down 1% in comparison to the prior year. We had a revenue decrease of 3% in the accounts serviced through our centralized delivery model, partially offset by a 3% revenue increase in the accounts serviced through our branch delivery network. Revenue increased in our finance and IT products, while revenue in our science and engineering products were down compared to a year ago.

The increase in the gross profit rate was primarily due to improved management of our payroll taxes, partially offset by an increase in our workers' compensation cost as compared to a year ago.

Total SG&A expenses decreased 1.4% on a reported basis and 1.2% on a CC basis, due primarily to lower salary cost as a result of the cost reduction initiatives we took in the second quarter of 2016.

Total EMEA - Third Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 239.3	\$ 242.6	(1.4)%	0.3%
Staffing fee-based income	5.5	5.8	(4.6)	(2.9)
Gross profit	35.0	37.1	(5.6)	(4.6)
Total SG&A expenses	30.6	31.8	(3.5)	(2.0)
Earnings from operations	4.4	5.3	(17.8)	
Gross profit rate	14.7%	15.3%	(0.6) pts.	
Expense rates:				
% of revenue	12.8	13.1	(0.3)	
% of gross profit	87.3	85.4	1.9	
Return on sales	1.9	2.2	(0.3)	

The change in EMEA revenue from services was due to a 4% decrease in average bill rates (a 2% decrease on a CC basis) due to country mix, partially offset by a 2% increase in hours volume. The increase in hours volume was due to Portugal, partially offset by a decrease in the U.K. EMEA represented 19% of total Company revenue in the third quarter of 2016 and 18% in the third quarter of 2015.

The EMEA gross profit rate decreased primarily due to a decline in the temporary staffing gross profit rate, which was mainly driven by an unfavorable customer mix in Switzerland and the U.K. Staffing fee-based income decreased primarily in Western Europe, with demand mainly weakening in the U.K.

Total SG&A expenses decreased 3.5% on a reported basis and 2.0% on a CC basis, due to effective cost control in headquarters expenses across the region, partially offset by targeted investments in our branch network.

OCG - Third Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 178.2	\$ 171.8	3.7%	3.9%
Gross profit	45.0	41.4	8.5	8.9
SG&A expenses	37.3	33.2	12.3	12.8
Earnings from operations	7.7	8.2	(7.0)	
Gross profit rate	25.2%	24.1%	1.1 pts.	
Expense rates:				
% of revenue	20.9	19.3	1.6	
% of gross profit	83.0	80.2	2.8	
Return on sales	4.3	4.8	(0.5)	

The increase in revenue from services in the OCG segment was due primarily to growth in the BPO and RPO practice areas. Revenue in BPO grew by 6% year over year and RPO revenue increased 7%. This revenue growth was due to the expansion of programs with existing customers and, to a lesser extent, new customers. OCG revenue represented 14% of total Company revenue in the third quarter of 2016 and 13% in the third quarter of 2015.

The change in the OCG gross profit rate was primarily due to increased gross profit rates in RPO, BPO and CWO as a result of customer and business mix within the practice areas.

The increase in SG&A expenses was primarily a result of increased headcount, as well as costs related to additional sales resources, including performance-based compensation.

Results of Operations
Total Company - September Year to Date
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 3,972.4	\$ 4,056.6	(2.1)%	(0.7)%
Staffing fee-based income	46.3	49.5	(6.3)	(3.9)
Gross profit	678.3	670.8	1.1	2.3
SG&A expenses excluding restructuring charges	631.5	630.6	0.1	1.3
Restructuring charges	3.4	—	NM	
Total SG&A expenses	634.9	630.6	0.7	1.8
Earnings from operations	43.4	40.2	7.9	
Gross profit rate	17.1%	16.5%	0.6 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	15.9	15.5	0.4	
% of gross profit	93.1	94.0	(0.9)	
Return on sales	1.1	1.0	0.1	
Conversion rate	6.4	6.0	0.4	

Total Company results of operations for the first nine months of 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 the first nine months of 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 the first nine months of 2016 was down 2.1% in comparison to the prior year on a reported basis, and down 0.7% on a CC basis, due to the transfer of the APAC operations and as more fully described in the following discussions.

The gross profit rate increased 60 basis points on a year-over-year basis, of which the transfer of the APAC businesses accounted for 10 basis points. 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 increased 0.7% on a reported basis and 1.8% 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. Also included in SG&A expenses for the first nine months of 2016 is \$1.8 million of one-time costs related to the expansion of the APAC staffing joint venture and an increase in OCG SG&A expenses due to growth in that segment. These increases were partially offset by continued cost management efforts in the EMEA region and a decrease due to the transfer of APAC operations to the joint venture.

Income tax expense for the first nine months of 2016 was \$28.2 million, compared to \$17.1 million for the first nine months of 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 the reinstatement of the work opportunity credit program and improved non-taxable investment income. Valuation allowances in certain foreign countries could be reduced by up to \$7 million in the near term if future taxable income is sufficient to make it more likely than not that deferred tax assets will be realizable in those jurisdictions.

Diluted earnings per share for the first nine months of 2016 were \$2.58, as compared to \$0.51 for the first nine months of 2015.

Total Americas - September Year to Date
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 2,605.9	\$ 2,630.0	(0.9)%	—%
Staffing fee-based income	25.1	23.9	4.9	5.6
Gross profit	420.2	412.3	1.9	2.7
SG&A expenses excluding restructuring charges	340.5	339.8	0.2	0.9
Restructuring charges	2.2	—	NM	
Total SG&A expenses	342.7	339.8	0.8	1.5
Earnings from operations	77.5	72.5	7.0	
Gross profit rate	16.1%	15.7%	0.4 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.1	12.9	0.2	
% of gross profit	81.0	82.4	(1.4)	
Return on sales	3.0	2.8	0.2	

The decrease in reported Americas revenue from services was due to a 2% decrease in hours volume, partially offset by a 1% increase in average bill rates (a 2% increase on a CC basis). This increase was due to a combination of wage and bill rate inflation, increased pricing in a number of accounts serviced through our branch-based delivery model, as well as business mix. Americas represented 66% of total Company revenue in the first nine months of 2016 and 65% in the first nine months of 2015.

Revenue in our Commercial segment decreased 1% on a reported basis and was flat on a CC basis in comparison to the prior year. The change in CC revenue in Commercial was primarily due to increases in our educational staffing business and in our light industrial product. These increases were offset by a decrease in our office services business in both our branch-based delivery model and our centralized delivery model.

In the PT segment, reported and CC revenue was flat in comparison to the prior year. PT revenue is up 5% in accounts serviced by our branch-based delivery model, while PT revenue is down 2% in accounts serviced by our centralized delivery model.

The increase in the gross profit rate was primarily due to improved management of our payroll taxes, coupled with higher staffing fee-based income, partially offset by higher workers' compensation costs.

Total SG&A expenses increased 0.8% on a reported basis and 1.5% 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. SG&A expenses excluding restructuring charges increased 0.2% on a reported basis and 0.9% on a CC basis. This increase is primarily the result of costs related to additional sales resources, partially offset by lower incentive payments.

Total EMEA - September Year to Date
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 696.6	\$ 699.8	(0.5)%	2.2%
Staffing fee-based income	17.7	17.6	0.8	4.7
Gross profit	103.1	106.3	(3.0)	(0.6)
SG&A expenses excluding restructuring charges	92.9	99.5	(6.5)	(3.8)
Restructuring charges	1.2	—	NM	
Total SG&A expenses	94.1	99.5	(5.3)	(2.7)
Earnings from operations	9.0	6.8	30.5	
Gross profit rate	14.8%	15.2%	(0.4) pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.4	14.2	(0.8)	
% of gross profit	90.1	93.5	(3.4)	
Return on sales	1.3	1.0	0.3	

The change in reported EMEA revenue from services was due to a 2% decrease in average bill rates (a 1% increase on a CC basis), partially offset by a 1% increase in hours volume. The increase in average bill rates on a CC basis was due primarily to the U.K., and the increase in hours volume was primarily due to Portugal. EMEA represented 18% of total Company revenue in the first nine months of 2016 and 17% in the first nine months of 2015.

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

Total SG&A expenses decreased 5.3% on a reported basis and 2.7% 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 - September Year to Date
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	\$ 520.3	\$ 486.3	7.0%	7.5%
Gross profit	130.1	112.6	15.5	16.3
SG&A expenses	112.2	98.1	14.4	15.3
Earnings from operations	17.9	14.5	22.8	
Gross profit rate	25.0%	23.1%	1.9 pts.	
Expense rates:				
% of revenue	21.6	20.2	1.4	
% of gross profit	86.3	87.1	(0.8)	
Return on sales	3.4	3.0	0.4	

Revenue from services in the OCG segment increased during the first nine months of 2016 due primarily to growth in the BPO, CWO and RPO practice areas. Revenue in BPO grew by 10% year over year, CWO, which includes PPO, grew by 4% year over year and RPO grew 3% year over year. The revenue growth in BPO, CWO and RPO 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 the first nine months of 2016 and 12% in the first nine months of 2015.

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, as well as costs associated with increased volume with existing customers, including salaries and performance-based compensation.

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 \$27.6 million at the end of the third quarter of 2016 and \$42.2 million at year-end 2015. As further described below, we generated \$26.1 million of cash from operating activities, generated \$10.6 million of cash from investing activities and used \$55.1 million of cash for financing activities.

Operating Activities

In the first nine months of 2016, we generated \$26.1 million of net cash from operating activities, as compared to using \$1.5 million in the first nine months of 2015. This change was the result of lower growth in trade accounts receivable due in part to improved global days sales outstanding (“DSO”) as noted below, as well as improving net earnings.

Trade accounts receivable totaled \$1.1 billion at the end of the third quarter of 2016. Global DSO were 56 days at the end of the third quarter of 2016 and 57 at the end of the third quarter of 2015.

Our working capital position (total current assets less total current liabilities) was \$430.0 million at the end of the third quarter of 2016, an increase of \$18.7 million from year-end 2015. The current ratio (total current assets divided by total current liabilities) was 1.6 at the end of the third quarter of 2016 and 1.5 at year-end 2015.

Investing Activities

In the first nine months of 2016, we generated \$10.6 million of cash from investing activities, as compared to using \$13.2 million in the first nine months of 2015. Included in cash from investing activities is \$18.8 million of net cash representing the cash received less the cash deconsolidated relating to the TS Kelly Asia Pacific joint venture transaction. Capital expenditures in both years relate primarily to the Company’s technology programs.

Financing Activities

In the first nine months of 2016, we used \$55.1 million of cash for financing activities, as compared to using \$19.3 million in the first nine months of 2015. The change in cash used in financing activities was caused by decreased short-term borrowings. Debt totaled \$8.7 million at the end of the third quarter of 2016 and \$55.5 million at year-end 2015. Debt-to-total capital (total debt reported on the balance sheet divided by total debt plus stockholders’ equity) is a common ratio to measure the relative capital structure and leverage of the Company. Our ratio of debt-to-total capital was 0.8% at the end of the third quarter of 2016 and 5.8% at year-end 2015.

The net change in short-term borrowings in the first nine months of 2016 and 2015 was primarily due to payments on our U.S. securitization facility.

We made dividend payments of \$7.7 million in the first nine months of 2016 and \$5.7 million in the first nine months of 2015.

New Accounting Pronouncements

See New Accounting Pronouncements footnote in the Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q for a description of new accounting pronouncements.

Contractual Obligations and Commercial Commitments

There are no material changes in our obligations and commitments to make future payments from those included in the Company's Annual Report on Form 10-K filed February 18, 2016. 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 third quarter 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.

As of the 2016 third quarter end, we had \$199.0 million of available capacity on our \$200.0 million revolving credit facility and \$101.6 million of available capacity on our \$150.0 million securitization facility. The securitization facility carried no short-term borrowings and \$48.4 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. As of the 2016 third quarter end, we met the debt covenants related to our revolving credit facility and securitization facility. We intend to refinance our revolving credit facility and securitization facility in the fourth quarter of 2016.

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.

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, changing market and economic conditions, our ability to achieve our business strategy, the risk of damage to our brand, the risk our intellectual 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, 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, the risk of cyber attacks or other breaches of network or information technology security as well as risks associated with compliance on data privacy, 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, disability and medical benefit plans, the impact of the Patient Protection and Affordable Care Act on our business, 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 the Company’s Annual Report on Form 10-K.

Item 3. 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 third quarter earnings.

Marketable equity investments, representing our 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 Consolidated Financial Statements of this Quarterly Report on Form 10-Q 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 4. Controls and Procedures.

Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's 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.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 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 1A. Risk Factors.

There have been no material changes in the Company's risk factors disclosed in Part I, Item 1A of the Company's Annual Report filed on Form 10-K for year ended January 3, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Sales of Equity Securities Not Registered Under the Securities Exchange Act of 1933

None.

(c) Issuer Repurchases of Equity Securities

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

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (in millions of dollars)
July 4, 2016 through August 7, 2016	238	\$ 20.34	—	\$ —
August 8, 2016 through September 4, 2016	1,297	19.35	—	\$ —
September 5, 2016 through October 2, 2016	71,198	19.22	—	\$ —
Total	72,733	\$ 19.22	—	\$ —

We may reacquire shares sold to cover taxes due upon the vesting of restricted stock held by employees. Accordingly, 72,733 shares were reacquired in transactions during the quarter.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 6. Exhibits.

See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 37 of this filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KELLY SERVICES, INC.

Date: November 9, 2016

/s/ Olivier G. Thiot
Olivier G. Thiot

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

Date: November 9, 2016

/s/ Laura S. Lockhart
Laura S. Lockhart

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

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

<u>Exhibit No.</u>	<u>Description</u>
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

CERTIFICATIONS

I, Carl T. Camden, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 9, 2016

/s/ Carl T. Camden
Carl T. Camden
President and
Chief Executive Officer

CERTIFICATIONS

I, Olivier G. Thiot, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 9, 2016

/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 Quarterly Report of Kelly Services, Inc. (the "Company") on Form 10-Q for the period ended October 2, 2016 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: November 9, 2016

/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 Quarterly Report of Kelly Services, Inc. (the "Company") on Form 10-Q for the period ended October 2, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Olivier G. Thiot, 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: November 9, 2016

/s/ Olivier G. Thiot
Olivier G. Thiot
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.