

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 April 2, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At May 1, 2017, 34,850,080 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	
	April 2, 2017	April 3, 2016
Revenue from services	\$ 1,289.7	\$ 1,349.1
Cost of services	1,058.1	1,116.4
Gross profit	231.6	232.7
Selling, general and administrative expenses	215.2	218.0
Earnings from operations	16.4	14.7
Other expense, net	(1.6)	(0.9)
Earnings before taxes and equity in net earnings (loss) of affiliate	14.8	13.8
Income tax expense	2.7	2.7
Net earnings before equity in net earnings (loss) of affiliate	12.1	11.1
Equity in net earnings (loss) of affiliate	0.1	0.1
Net earnings	\$ 12.2	\$ 11.2
Basic earnings per share	\$ 0.31	\$ 0.29
Diluted earnings per share	\$ 0.31	\$ 0.29
Dividends per share	\$ 0.075	\$ 0.05
Average shares outstanding (millions):		
Basic	38.3	38.0
Diluted	38.7	38.2

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	
	April 2, 2017	April 3, 2016
Net earnings	\$ 12.2	\$ 11.2
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net of tax expense of \$0.1 in 2017 and \$0.2 in 2016	5.7	11.9
Less: Reclassification adjustments included in net earnings	—	(0.3)
Foreign currency translation adjustments	5.7	11.6
Unrealized gains (losses) on investment, net of tax expense of \$8.6 in 2017 and benefit of \$4.0 in 2016	18.9	(8.1)
Other comprehensive income	24.6	3.5
Comprehensive income	\$ 36.8	\$ 14.7

See accompanying unaudited Notes to Consolidated Financial Statements.

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

<u>ASSETS</u>	April 2, 2017	January 1, 2017
CURRENT ASSETS:		
Cash and equivalents	\$ 46.0	\$ 29.6
Trade accounts receivable, less allowances of \$11.9 and \$12.5, respectively	1,164.6	1,138.3
Prepaid expenses and other current assets	59.0	46.7
Total current assets	1,269.6	1,214.6
NONCURRENT ASSETS:		
Property and equipment:		
Property and equipment	273.5	270.0
Accumulated depreciation	(194.5)	(189.2)
Net property and equipment	79.0	80.8
Deferred taxes	183.5	180.1
Goodwill	88.4	88.4
Investment in equity affiliate	114.9	114.8
Other assets	399.7	349.4
Total noncurrent assets	865.5	813.5
TOTAL ASSETS	\$ 2,135.1	\$ 2,028.1

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>	April 2, 2017	January 1, 2017
CURRENT LIABILITIES:		
Short-term borrowings	\$ —	\$ —
Accounts payable and accrued liabilities	471.9	455.1
Accrued payroll and related taxes	276.5	241.5
Accrued insurance	22.3	23.4
Income and other taxes	54.7	51.1
Total current liabilities	825.4	771.1
NONCURRENT LIABILITIES:		
Accrued insurance	43.3	45.5
Accrued retirement benefits	164.3	157.4
Other long-term liabilities	52.4	42.1
Total noncurrent liabilities	260.0	245.0
Commitments and contingencies (see contingencies footnote)		
STOCKHOLDERS' EQUITY:		
Capital stock, \$1.00 par value		
Class A common stock, shares issued 36.6 at 2017 and 2016	36.6	36.6
Class B common stock, shares issued 3.5 at 2017 and 2016	3.5	3.5
Treasury stock, at cost		
Class A common stock, 1.8 shares at 2017 and 1.9 Shares at 2016	(37.5)	(38.4)
Class B common stock	(0.6)	(0.6)
Paid-in capital	31.5	28.6
Earnings invested in the business	932.9	923.6
Accumulated other comprehensive income	83.3	58.7
Total stockholders' equity	1,049.7	1,012.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,135.1	\$ 2,028.1

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	
	April 2, 2017	April 3, 2016
Capital Stock		
Class A common stock		
Balance at beginning of period	\$ 36.6	\$ 36.6
Conversions from Class B	—	—
Balance at end of period	36.6	36.6
Class B common stock		
Balance at beginning of period	3.5	3.5
Conversions to Class A	—	—
Balance at end of period	3.5	3.5
Treasury Stock		
Class A common stock		
Balance at beginning of period	(38.4)	(43.7)
Issuance of restricted stock and other	0.9	0.6
Balance at end of period	(37.5)	(43.1)
Class B common stock		
Balance at beginning of period	(0.6)	(0.6)
Issuance of restricted stock and other	—	—
Balance at end of period	(0.6)	(0.6)
Paid-in Capital		
Balance at beginning of period	28.6	25.4
Issuance of restricted stock and other	2.9	2.0
Balance at end of period	31.5	27.4
Earnings Invested in the Business		
Balance at beginning of period	923.6	813.5
Net earnings	12.2	11.2
Dividends	(2.9)	(1.9)
Balance at end of period	932.9	822.8
Accumulated Other Comprehensive Income		
Balance at beginning of period	58.7	60.7
Other comprehensive income, net of tax	24.6	3.5
Balance at end of period	83.3	64.2
Stockholders' Equity at end of period	\$ 1,049.7	\$ 910.8

See accompanying unaudited Notes to Consolidated Financial Statements.

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

	13 Weeks Ended	
	April 2, 2017	April 3, 2016
Cash flows from operating activities:		
Net earnings	\$ 12.2	\$ 11.2
Noncash adjustments:		
Depreciation and amortization	5.3	5.6
Provision for bad debts	1.5	1.7
Stock-based compensation	3.9	2.7
Other, net	(0.2)	(0.1)
Changes in operating assets and liabilities	1.6	(0.9)
Net cash from operating activities	24.3	20.2
Cash flows from investing activities:		
Capital expenditures	(2.8)	(1.5)
Other investing activities	(0.1)	(0.3)
Net cash used in investing activities	(2.9)	(1.8)
Cash flows from financing activities:		
Net change in short-term borrowings	—	(16.4)
Dividend payments	(2.9)	(1.9)
Other financing activities	(0.1)	—
Net cash used in financing activities	(3.0)	(18.3)
Effect of exchange rates on cash and equivalents	(2.0)	4.1
Net change in cash and equivalents	16.4	4.2
Cash and equivalents at beginning of period	29.6	42.2
Cash and equivalents at end of period	\$ 46.0	\$ 46.4

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 1, 2017, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 17, 2017 (the 2016 consolidated financial statements). The Company's first fiscal quarter ended on April 2, 2017 (2017) and April 3, 2016 (2016), each of which contained 13 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

The Company has a 49% ownership interest in TS Kelly Asia Pacific. The operating results of the Company's interest in TS Kelly Asia Pacific are accounted for on a one-quarter lag under the equity method and are reported in the equity in net earnings (loss) of affiliate in the consolidated statement of earnings. These operating results include the operating results of the Company's interest in TS Kelly Workforce Solutions, a previous joint venture in which the the Company held a 49% interest, which was transferred to TS Kelly Asia Pacific during the first quarter of 2017.

The investment in equity affiliate on the Company's balance sheet totaled \$114.9 million as of first quarter-end 2017 and \$114.8 million as of year-end 2016. The net amount due to TS Kelly Asia Pacific, a related party, was \$0.9 million as of the first quarter-end 2017 and \$1.1 million as of year-end 2016. The amount included in trade accounts payable for staffing services provided by TS Kelly Asia Pacific as a supplier to CWO programs was \$2.5 million as of first quarter-end 2017 and \$3.1 million as of year-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 first quarter-end 2017 and year-end 2016 by fair value hierarchy level, as described below.

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

Description	Fair Value Measurements on a Recurring Basis As of First Quarter-End 2017			
	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	\$ 4.0	\$ 4.0	\$ —	\$ —
Available-for-sale investment	169.6	169.6	—	—
Total assets at fair value	\$ 173.6	\$ 173.6	\$ —	\$ —

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

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

Money market funds as of first quarter-end 2017 and as of year-end 2016 represent investments in government 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 \$18.9 million for the first quarter of 2017 and unrealized loss, net of tax, of \$8.1 million for the first quarter of 2016 was recorded in other comprehensive income, and in accumulated other comprehensive income, a component of stockholders' equity. The cost of this yen-denominated investment, which fluctuates based on foreign exchange rates, was \$18.6 million as of the first quarter-end 2017 and \$17.7 million at year-end 2016.

Assets Measured at Fair Value on a Nonrecurring Basis

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. Generally accepted accounting principles require that goodwill be tested for impairment at a reporting unit level. We have determined that our reporting units are the same as our operating and reportable segments.

The realignment of the Company's operations into three reportable segments effective with the first quarter of 2017 (see Goodwill and Segment Disclosures footnotes) resulted in a change in our reporting units. As a result, we completed a step one quantitative test for our new reporting units with goodwill. We determined the estimated fair value of each reporting unit tested exceeded its related carrying value. As a result of these quantitative assessments, we determined it was more likely than not that the fair value of each of the reporting units was in excess of its carrying value.

4. Restructuring

In the first quarter of 2017, the Company has taken restructuring actions in Global Talent Solutions and Americas Staffing to optimize service delivery models and deliver cost savings in 2017.

Restructuring costs incurred in the first quarter of 2017 totaled \$2.4 million. Global Talent Solutions incurred \$2.0 million and Americas Staffing incurred \$0.4 million. All costs, which are primarily severance costs, are recorded entirely in selling, general and administrative (“SG&A”) expenses in the consolidated statement of earnings.

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 2016	\$	0.5
Additions charged to Global Talent Solutions		2.0
Additions charged to Americas Staffing		0.4
Reductions for cash payments related to all restructuring activities		(0.7)
Balance as of first quarter-end 2017	\$	2.2

The remaining balance of \$2.2 million as of first quarter-end 2017 represents primarily severance costs, and the majority is expected to be paid during 2017. No material adjustments are expected to be recorded.

5. Goodwill

As discussed in the Segment Disclosures footnote, during the first quarter of 2017 the Company’s chief operating decision maker (“CODM”) changed the way he regularly reviews information for purposes of allocating resources and assessing performance, which resulted in a change in our operating segments and reporting units. We allocated goodwill to our new reporting units using a relative fair value approach. In addition, as discussed in the Fair Value Measurements footnote, we completed an assessment of any potential goodwill impairment for all reporting units with goodwill and determined that no impairment existed. The changes in the carrying amount of goodwill for the first quarter-end 2017 are included in the table below.

	As of Year-End 2016				As of First Quarter-End 2017	
	Goodwill, Gross	Accumulated Impairment Losses	Goodwill, Net	Allocation of Goodwill	Goodwill	
	(In millions of dollars)					
Americas Commercial	\$ 40.0	\$ (16.4)	\$ 23.6	\$ (23.6)	\$	—
Americas PT	37.9	—	37.9	(37.9)		—
EMEA Commercial	50.4	(50.4)	—	—		—
EMEA PT	22.0	(22.0)	—	—		—
APAC Commercial	12.1	(12.1)	—	—		—
APAC PT	—	—	—	—		—
OCG	26.9	—	26.9	(26.9)		—
Americas Staffing	—	—	—	25.9		25.9
GTS	—	—	—	62.5		62.5
International Staffing	—	—	—	—		—
	<u>\$ 189.3</u>	<u>\$ (100.9)</u>	<u>\$ 88.4</u>	<u>\$ —</u>	<u>\$</u>	<u>88.4</u>

6. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component, net of tax, for the first quarter 2017 and 2016 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.

	First Quarter 2017			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
	(In millions of dollars)			
Beginning balance	\$ (23.3)	\$ 83.8	\$ (1.8)	\$ 58.7
Other comprehensive income before reclassifications	5.7	18.9	—	24.6
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current-period other comprehensive income	5.7	18.9	—	24.6
Ending balance	\$ (17.6)	\$ 102.7	\$ (1.8)	\$ 83.3

	First Quarter 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 (loss) before reclassifications	11.9	(8.1)	—	3.8
Amounts reclassified from accumulated other comprehensive income	(0.3)	—	—	(0.3)
Net current-period other comprehensive income (loss)	11.6	(8.1)	—	3.5
Ending balance	\$ (11.0)	\$ 76.8	\$ (1.6)	\$ 64.2

7. Earnings Per Share

The reconciliation of basic and diluted earnings per share on common stock for the first quarter 2017 and 2016 follows (in millions of dollars except per share data):

	First Quarter	
	2017	2016
Net earnings	\$ 12.2	\$ 11.2
Less: earnings allocated to participating securities	(0.2)	(0.3)
Net earnings available to common shareholders	<u>\$ 12.0</u>	<u>\$ 10.9</u>
Average shares outstanding (millions):		
Basic	38.3	38.0
Dilutive share awards	0.4	0.2
Diluted	<u>38.7</u>	<u>38.2</u>
Basic earnings per share	\$ 0.31	\$ 0.29
Diluted earnings per share	\$ 0.31	\$ 0.29

Potentially dilutive shares outstanding are primarily related to performance shares for the first quarter 2017 and 2016. Stock options excluded from the computation of diluted earnings per share due to their anti-dilutive effect for the first quarter 2016 were not significant. All remaining stock options expired in the second quarter 2016.

8. Stock-Based Compensation

Performance Shares

2017 Grant

On February 15, 2017, 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 2017 performance share grant, the total target number of performance shares granted is 248,400, and the maximum number of performance shares that may be earned is 496,800, which assumes 200% of the target shares originally granted. Target shares of 165,600 may be earned upon the achievement of two financial goals ("financial measure performance shares") and target shares of 82,800 may be earned based on the Company's total shareholder return relative to the S&P SmallCap 600 Index ("TSR performance shares"). No dividends are paid on these performance shares.

The financial measure performance shares, which have a weighted average grant date fair value of \$21.07, have a three-year performance period through December 31, 2019. These shares will cliff-vest after approval by the Compensation Committee, which will be no later than March 15, 2020, if not forfeited by the recipient. For each of the two financial measures, there are annual goals set in February of each year, with the total award payout based on a cumulative average of the 2017, 2018 and 2019 goals. Accordingly, consistent with 2016 awards, the Company remeasures the fair value of the 2017 financial measure performance shares each reporting period until the 2019 goals are set, after which the fair value will be fixed for the remaining performance period. As of first quarter-end 2017, the current fair value for all financial measure performance shares was \$20.98.

The TSR performance shares also have a three-year performance period through December, 31, 2019 and have an estimated fair value of \$20.16, 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, 2020, if not forfeited by the recipient.

For the first quarter 2017 and 2016, respectively, total compensation expense related to all performance shares was \$2.9 million and \$1.3 million, and the related tax benefit was \$1.1 million and \$0.5 million.

9. Other Expense, Net

Included in other expense, net for the first quarter 2017 and 2016 are the following:

	First Quarter	
	2017	2016
	(In millions of dollars)	
Interest income	\$ 0.1	\$ 0.1
Interest expense	(0.5)	(0.9)
Foreign exchange loss	(1.2)	(0.1)
Other expense, net	\$ (1.6)	\$ (0.9)

10. Income Taxes

Income tax expense for the first quarter of both 2017 and 2016 was \$2.7 million. 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. There could be an income tax benefit from a valuation allowance release of approximately \$6 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.

11. 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. A court hearing is scheduled for August 2, 2017 to consider final approval for 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 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.

12. Segment Disclosures

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the CODM to determine resource allocation and assess performance. During the first quarter of 2017, the Company's CODM, who was previously the Company's Chief Executive Officer ("CEO") and Chief Operating Officer, was determined to be the Company's CEO. 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. During the first quarter of 2017, the Company realigned its business into three reportable segments, which reflect how the Company delivers services to customers and how its business is organized internally. These segments are: (1) Americas Staffing, (2) Global Talent Solutions ("GTS"), and (3) International Staffing. Accordingly, prior year's segment information was recast to conform to the current presentation. Intersegment revenue represents revenue earned between the reportable segments and is eliminated from total segment revenue from services.

Americas Staffing represents the Company's branch-delivered staffing business in the U.S., Canada, Puerto Rico, Mexico and Brazil. International Staffing represents the EMEA region branch-delivered staffing business, as well as the Company's APAC region staffing business prior to the transaction to form the TS Kelly Asia Pacific joint venture in July 2016. Americas Staffing and International Staffing both deliver temporary staffing, as well as direct-hire placement services, in office-clerical, educational, light industrial and professional and technical specialties within their geographic regions.

GTS combines the delivery structure of the Company's outsourcing and consulting group and centrally delivered staffing business. It reflects the trend of customers towards the adoption of holistic talent supply chain solutions which combine contingent labor, full-time hiring and outsourced services. GTS includes centrally delivered staffing, recruitment process outsourcing ("RPO"), contingent workforce outsourcing ("CWO"), business process outsourcing ("BPO"), payroll process outsourcing ("PPO"), executive placement, career transition/outplacement services and advisory services.

Corporate expenses that directly support the operating units have been allocated to Americas Staffing, GTS and International Staffing based on a work effort, volume or, in the absence of a readily available measurement process, proportionately based on gross profit realized. In connection with the realignment of the segment structure, we reassessed the allocation of corporate expenses to the operating segments and updated the allocation method for corporate expenses which do not have a readily available measurement from revenue to gross profit. Prior periods have been recast to reflect the current period allocation method. The update had no impact on the consolidated financial information.

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 first quarter 2017 and 2016. 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.

	First Quarter	
	2017	2016
	(In millions of dollars)	
Revenue from Services:		
Americas Staffing	\$ 573.1	\$ 554.1
Global Talent Solutions	487.3	490.9
International Staffing	233.6	309.0
Less: Intersegment revenue	(4.3)	(4.9)
Consolidated Total	\$ 1,289.7	\$ 1,349.1

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

	First Quarter	
	2017	2016
	(In millions of dollars)	
Earnings from Operations:		
Americas Staffing gross profit	\$ 105.3	\$ 100.7
Americas Staffing SG&A expenses	(84.1)	(83.6)
Americas Staffing Earnings from Operations	<u>21.2</u>	<u>17.1</u>
Global Talent Solutions gross profit	90.5	85.3
Global Talent Solutions SG&A expenses	(75.2)	(71.6)
Global Talent Solutions Earnings from Operations	<u>15.3</u>	<u>13.7</u>
International Staffing gross profit	36.4	47.8
International Staffing SG&A expenses	(31.2)	(41.2)
International Staffing Earnings from Operations	<u>5.2</u>	<u>6.6</u>
Less: Intersegment gross profit	(0.6)	(1.1)
Less: Intersegment SG&A expenses	0.6	1.1
Net Intersegment Activity	<u>—</u>	<u>—</u>
Corporate	(25.3)	(22.7)
Consolidated Total	<u>16.4</u>	<u>14.7</u>
Other Expense, Net	<u>(1.6)</u>	<u>(0.9)</u>
Earnings Before Taxes	<u>\$ 14.8</u>	<u>\$ 13.8</u>

13. New Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04 simplifying the accounting for goodwill impairment for all entities. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). The ASU is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We are currently evaluating the impact of the new guidance on our goodwill impairment testing process and consolidated financial statements.

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

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

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

In March 2016, the FASB issued ASU 2016-09 amending several aspects of share-based payment accounting. This guidance requires all excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled, with prospective application required. The guidance also changes the classification of such tax benefits or tax deficiencies on the statement of cash flows from a financing activity to an operating activity, with retrospective or prospective application allowed. Additionally, the guidance requires the classification of employee taxes paid when an employer withholds shares for taxwithholding 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 adopted this guidance effective January 2, 2017, and the adoption did not have a material effect on our financial statements.

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

KELLY SERVICES, INC. AND SUBSIDIARIES
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application. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. As our branch operations are primarily conducted in leased facilities, this ASU will likely have a material impact on our balance sheet, may have a material impact to our statement of earnings and will require us to disclose additional information about our leasing activities. We established a cross-functional implementation team to further assess the impact of the standard.

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

In 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. Since the issuance of the original standard, the FASB has issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12); and 5) technical corrections and improvements (ASU 2016-20). The new standard will be effective for us beginning January 1, 2018.

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

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

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

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

14. Subsequent Event

Effective May 10, 2017, Carl T. Camden retired as President and Chief Executive Officer and George S. Corona was appointed President and Chief Executive Officer of the Company. In connection with his retirement, Mr. Camden is entitled to receive a pro-rata portion of the three outstanding performance awards granted in 2015, 2016, and 2017 and resulted in a forfeiture of approximately 141,000 shares, based on target, or approximately \$1.0 million. The prorated amounts will be payable following the end of each applicable performance period at such time as the Compensation Committee of the Company's Board of Directors determines that applicable management performance objectives have been attained. Mr. Camden's retirement will also result in the forfeiture of his unvested restricted share awards of 130,500 shares or approximately \$0.4 million.

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 specialized staffing, and has expanded into 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 specialized talent continue to represent long-term opportunities for the industry.

Our Business

Kelly Services is a global workforce solutions company, serving customers of all sizes in a variety of industries. In July 2016, we expanded our joint venture with Temp Holdings to form TS Kelly Asia Pacific and moved our APAC staffing operations into the JV. In early 2017, we restructured components of our previous Americas Commercial, Americas PT and OCG segments under a single delivery organization, triggering a change in our operating structure. We now provide staffing through our branch networks in our Americas and International operations, with commercial and specialized professional/technical staffing businesses in each region. We also provide a suite of innovative talent fulfillment and outcome-based solutions through our Global Talent Solutions ("GTS") segment, which delivers integrated talent management solutions to meet customer needs across the entire spectrum of talent categories. Using talent supply chain strategies, GTS helps customers plan for, manage and execute their acquisition of contingent labor, full-time labor and free agents, 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 55 days on a global basis as of the 2017 first quarter end, 53 days as of the 2016 year end and 55 days as of the 2016 first 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 branch-delivered staffing in key markets;
- Enhance our position as a market-leading provider of talent supply chain management in our GTS segment; and
- Lower our costs through deployment of efficient service delivery models.

Our 2017 first quarter results affirm that we are focused on accelerating our progress. We took actions to optimize the service delivery teams in our GTS segment, including recording a \$2.4 million restructuring charge.

- Earnings from operations for the first quarter of 2017 totaled \$16.4 million, compared to \$14.7 million in the first quarter of 2016. Excluding the impact of the first quarter restructuring charges, earnings from operations were \$18.8 million. The conversion rate for the first quarter, excluding restructuring, was 8.1%, compared to 6.3% in the same period last year.

- In the Americas Staffing segment, revenue grew 3.4% year over year, and earnings from operations was \$21.2 million, an improvement of 24% year over year.
- Although revenue was down slightly, the GTS segment delivered 6% gross profit growth and 12% earnings from operations growth year over year, while absorbing restructuring charges intended to deliver full-year cost savings in 2017.
- In the International Staffing segment, year-over-year revenue declined as a result of the deconsolidation of APAC staffing during the third quarter of 2016. Excluding the APAC staffing results, revenue for the first quarter was up as the segment delivered strong growth across Europe.

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 measure our progress against both revenue and gross profit growth, and we expect to improve our 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 professional and technical specialty and outsourced solutions, creating a more balanced portfolio that yields benefits from an improved mix;
- Locally delivered staffing to remain a core component of our strategy;
- Kelly Educational Staffing to continue to be a market leader in the U.S.;
- To exercise strict control, delivering structural improvements that ensure a return from our investments in delivery infrastructure and, as a result;
- Our conversion rate to continue to improve.

Looking ahead, we are keeping a watchful eye on the global market while anticipating an increasing demand for skilled workers. 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 2017 financial data into U.S. dollars using the same foreign currency exchange rates used to translate financial data for 2016. 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 SG&A within a single country and currency which, as a result, provide a natural hedge against currency risks in connection with their normal business operations.

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

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

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

Staffing Fee-Based Income

Staffing fee-based income, which is included in revenue from services in the following table, 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 - First Quarter
(Dollars in millions)

	2017	2016	Change	CC Change
Revenue from services	\$ 1,289.7	\$ 1,349.1	(4.4)%	(4.2)%
Gross profit	231.6	232.7	(0.5)	(0.3)
SG&A expenses excluding restructuring charges	212.8	218.0	(2.4)	(2.2)
Restructuring charges	2.4	—	NM	NM
Total SG&A expenses	215.2	218.0	(1.3)	(1.1)
Earnings from operations	16.4	14.7	11.2	
Earnings from operations excluding restructuring charges	18.8	14.7	27.2	
Staffing fee-based income (included in revenue from services)	13.5	16.5	(18.7)	(18.9)
Gross profit rate	18.0%	17.3%	0.7 pts.	
Conversion rate	7.1	6.3	0.8	
Conversion rate excluding restructuring charges	8.1	6.3	1.8	
Return on sales	1.3	1.1	0.2	
Return on sales excluding restructuring charges	1.5	1.1	0.4	

During the third quarter of 2016, we transferred our APAC staffing and certain APAC GTS businesses in exchange for a 49% interest in the TS Kelly Asia Pacific joint venture, negatively impacting year-over-year revenue comparisons in the first quarter of 2017. Total Company revenue from services for the first quarter of 2017 was down 4.4% in comparison to the prior year. 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 International Staffing discussions.

The gross profit rate increased by 70 basis points, reflecting an improving rate in all three segments. As described in the following discussions, our gross profit rate benefited from lower workers' compensation expenses in Americas Staffing and one-time employment tax savings in International Staffing. Additionally, we experienced gross profit rate improvement in the GTS segment.

Total SG&A expenses decreased 1.3% on a reported basis, reflecting the transfer of the APAC staffing businesses. Included in total SG&A expenses are restructuring charges of \$2.4 million, relating primarily to an initiative to optimize our GTS service delivery models. The decrease in SG&A expenses was partially offset by the timing of performance-based incentive compensation included in corporate expenses. Increases in SG&A expenses in the operating segments were in line with gross profit growth.

Diluted earnings per share for the first quarter of 2017 were \$0.31, as compared to \$0.29 for the first quarter of 2016.

Americas Staffing - First Quarter
(Dollars in millions)

	2017	2016	Change	CC Change
Revenue from services	\$ 573.1	\$ 554.1	3.4%	3.4%
Gross profit	105.3	100.7	4.6	4.4
SG&A expenses excluding restructuring charges	83.7	83.6	0.1	0.1
Restructuring charges	0.4	—	NM	NM
Total SG&A expenses	84.1	83.6	0.5	0.5
Earnings from operations	21.2	17.1	24.3	
Earnings from operations excluding restructuring charges	21.6	17.1	26.4	
Gross profit rate	18.4%	18.2%	0.2 pts.	
Conversion rate	20.1	16.9	3.2	
Conversion rate excluding restructuring charges	20.5	16.9	3.6	
Return on sales	3.7	3.1	0.6	
Return on sales excluding restructuring charges	3.8	3.1	0.7	

The change in Americas Staffing revenue from services reflects a 6% increase in average bill rates, partially offset by a 2% decrease in hours volume. The increase in average bill rates was the result of wage increases and stronger revenue growth in our services lines with the highest pay rates. Americas Staffing represented 44% of total Company revenue in the first quarter of 2017 and 41% in the first quarter of 2016.

The increase in revenue was primarily due to an increase in our educational staffing business, light industrial, engineering and IT products. These increases were partially offset by decreases in our office services volume and science products.

The increase in the Americas Staffing gross profit rate was primarily due to lower workers' compensation and other employee-related costs as compared to last year, partially offset by unfavorable business mix. We regularly update our estimates of open workers' compensation claims. As a result, we decreased our estimated costs of prior year workers' compensation in Americas Staffing by \$1.2 million for the first quarter of 2017. This compares to an adjustment reducing prior year workers' compensation claims in Americas Staffing by \$0.1 million for the first quarter of 2016.

Total SG&A expenses were flat year over year, reflecting a continued focus on expense management.

GTS - First Quarter
(Dollars in millions)

	2017	2016	Change	CC Change
Revenue from services	\$ 487.3	\$ 490.9	(0.7)%	(0.8)%
Gross profit	90.5	85.3	6.1	6.2
SG&A expenses excluding restructuring charges	73.2	71.6	2.2	2.4
Restructuring charges	2.0	—	NM	NM
Total SG&A expenses	75.2	71.6	5.0	5.2
Earnings from operations	15.3	13.7	11.6	
Earnings from operations excluding restructuring charges	17.3	13.7	26.2	
Gross profit rate	18.6%	17.4%	1.2 pts.	
Conversion rate	16.9	16.0	0.9	
Conversion rate excluding restructuring charges	19.1	16.0	3.1	
Return on sales	3.1	2.8	0.3	
Return on sales excluding restructuring charges	3.5	2.8	0.7	

GTS revenue represented 38% of total Company revenue in the first quarter of 2017 and 36% in the first quarter of 2016. Revenue from services was nearly flat compared to last year. Revenue increases in BPO, KellyConnect and CWO practices were offset by declines in our centrally delivered staffing and payroll business.

The increase in the GTS gross profit rate was due to favorable pricing and customer mix, coupled with a decrease in our workers' compensation and other employee-related costs.

Total SG&A expenses increased 5.0% from the prior year. Included in total SG&A are restructuring charges of \$2.0 million, representing severance relating to an initiative to optimize our service delivery models in this segment to deliver expected cost savings. The remaining cost increase is due to increased salary and headcount to support the segment's growth.

International Staffing - First Quarter
(Dollars in millions)

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>CC Change</u>
Revenue from services	\$ 233.6	\$ 309.0	(24.4)%	(23.2)%
Gross profit	36.4	47.8	(23.9)	(22.6)
Total SG&A expenses	31.2	41.2	(24.2)	(23.3)
Earnings from operations	5.2	6.6	(21.7)	
Gross profit rate	15.6%	15.5%	0.1 pts.	
Conversion rate	14.4	14.0	0.4	
Return on sales	2.2	2.2	—	

International Staffing includes the Company's APAC region staffing businesses prior to the transaction to form the TS Kelly Asia Pacific joint venture in the third quarter of 2016, resulting in a 32% decrease in International Staffing revenue from services. This decrease, partially offset by a 12% increase in hours volume and combined with a 4% decrease in average bill rates (a 2% decrease on a CC basis) from our European operations, accounted for the 24% change in revenue from services. The increase in hours volume was due to Portugal, Russia and France, and the decrease in average bill rates was due to country mix. International Staffing represented 18% of total Company revenue in the first quarter of 2017 and 23% in the first quarter of 2016.

The International Staffing gross profit rate increased primarily due to a one-time benefit related to French payroll tax adjustments, partially offset by the impact of the transfer of our APAC staffing business.

The transfer of the APAC staffing businesses accounted for a 28% decrease in SG&A expenses. This decrease was partially offset by a 4% increase due to targeted investments in recruiters in our European branch network, partially offset by effective cost control in headquarters expenses across the region.

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 \$46.0 million at the end of the first quarter of 2017 and \$29.6 million at year-end 2016. As further described below, we generated \$24.3 million of cash from operating activities, used \$2.9 million of cash for investing activities and used \$3.0 million of cash for financing activities.

Operating Activities

In the first three months of 2017, we generated \$24.3 million of net cash from operating activities, as compared to generating \$20.2 million in the first three months of 2016. This change was primarily driven by a decrease in payments through accrued payroll and related taxes.

Trade accounts receivable totaled \$1.2 billion at the end of the first quarter of 2017. Global DSO were 55 days at the end of the first quarter of 2017 and 2016.

Our working capital position (total current assets less total current liabilities) was \$444.2 million at the end of the first quarter of 2017, an increase of \$0.7 million from year-end 2016. The current ratio (total current assets divided by total current liabilities) was 1.5 at the end of the first quarter of 2017 and 1.6 at year-end 2016.

Investing Activities

In the first three months of 2017, we used \$2.9 million of cash for investing activities, as compared to using \$1.8 million in the first three months of 2016. Capital expenditures in both years relate primarily to the Company's technology programs.

Financing Activities

In the first three months of 2017, we used \$3.0 million of cash for financing activities, as compared to using \$18.3 million in the first three months of 2016. The change in cash used in financing activities was related to short-term borrowing activities. Debt totaled zero at the end of the first quarter of 2017 and at year-end 2016. 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 0.0% at the end of the first quarter of 2017 and at year-end 2016.

There was no change in short-term borrowings in the first three months of 2017. The net change in short-term borrowings in the first three months of 2016 was primarily due to payments on our U.S. securitization facility.

We made dividend payments of \$2.9 million in the first three months of 2017 and \$1.9 million in the first three months of 2016.

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 17, 2017. 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 2017 first 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 end of the first quarter of 2017, we had \$150.0 million of available capacity on our \$150.0 million revolving credit facility and \$149.6 million of available capacity on our \$200.0 million securitization facility. The securitization facility carried no short-term borrowings and \$50.4 million of standby letters of credit related to workers' compensation. Together, the revolving credit and securitization facilities provide the Company with committed funding capacity that may be used for general corporate purposes. While we believe these facilities will cover our working capital needs over the short term, if economic conditions or operating results change significantly, we may need to seek additional sources of funds. As of the end of the first quarter of 2017, we met the debt covenants related to our revolving credit facility and securitization facility.

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 and disruptions, changing market and economic conditions, our ability to achieve our business strategy, the risk of damage to our brand, the risk our intellectual property assets could be infringed upon or compromised, our ability to successfully develop new service offerings, our exposure to risks associated with services outside traditional staffing, including business process outsourcing, our increasing dependency on third parties for the execution of critical functions, the risks associated with past and future acquisitions, exposure to risks associated with investments in equity affiliates including TS Kelly Asia Pacific, material changes in demand from or loss of large corporate customers as well as changes in their buying practices, risks associated with conducting business in foreign countries, including foreign currency fluctuations, availability of full-time employees to lead complex talent supply chain sales and operations, availability of temporary workers with appropriate skills required by customers, liabilities for employment-related claims and losses, including class action lawsuits and collective actions, risks arising from failure to preserve the privacy of information entrusted to us or to meet our obligations under global privacy laws, the risk of cyber attacks or other breaches of network or information technology security, our ability to sustain critical business applications through our key data centers, our ability to effectively implement and manage our information technology programs, our ability to maintain adequate financial and management processes and controls, impairment charges triggered by adverse industry developments or operational circumstances, unexpected changes in claim trends on workers’ compensation, unemployment compensation, disability and medical benefit plans, the impact of changes in laws and regulations (including federal, state and international tax laws), the risk of additional tax or unclaimed property liabilities in excess of our estimates, our ability to maintain specified financial covenants in our bank facilities to continue to access credit markets, and other risks, uncertainties and factors discussed in this report and in our other filings with the Securities and Exchange Commission. Actual results may differ materially from any forward looking statements contained herein, and we have no intention to update these statements. Certain risk factors are discussed more fully under “Risk Factors” in Part I, Item 1A of 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 2017 first 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.

Effective May 10, 2017, Carl T. Camden retired as President and Chief Executive Officer and George S. Corona was appointed President and Chief Executive Officer of the Company.

There were no other 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. A court hearing is scheduled for August 2, 2017 to consider final approval for 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 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 1, 2017.

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 first quarter of 2017, 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)
January 2, 2017 through February 5, 2017	924	\$ 23.30	—	\$ —
February 6, 2017 through March 5, 2017	20,328	21.85	—	\$ —
March 6, 2017 through April 2, 2017	893	21.86	—	\$ —
Total	22,145	\$ 21.91	—	—

We may reacquire shares sold to cover taxes due upon the vesting of restricted stock held by employees. Accordingly, 22,145 shares were reacquired in transactions during the quarter.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 33 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: May 11, 2017

/s/ Olivier G. Thiot
Olivier G. Thiot

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

Date: May 11, 2017

/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>
10.3*	Kelly Services, Inc. Senior Executive Severance Plan
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates a management contract or compensatory plan or arrangement.

KELLY SERVICES, INC.
SENIOR EXECUTIVE SEVERANCE PLAN

1. Establishment; Purpose.

(a) **Establishment.** Kelly Services, Inc. (the “Company”) hereby establishes the Kelly Services Inc. Senior Executive Severance Plan (the “Plan”), as set forth in this document, effective as of March 31, 2017 (the “Effective Date”).

(b) **Purpose.** The Plan is designed to provide for financial protection to certain key executives of the Company in the event of unexpected job loss, in order to encourage the continued attention of participants who are expected to make substantial contributions to the success of the Company and thereby provide for stability and continuity of management. Except as otherwise provided in Section 3(a), with respect to executives identified as Tier 1 Participants and Tier 2 Participants, this Plan supersedes all prior plans, policies and practices of the Company, including provisions of any employment agreement between the executive and the Company with respect to severance or separation pay for the executive. The Plan is the only severance program for such executives.

2. Definitions. For purposes of the Plan, the following terms have the meanings set forth below:

“Accrued Benefits” has the meaning given to that term in Section 4(a)(i) hereof.

“Affiliate” means any corporation, partnership, or other business enterprise in which the Company directly or indirectly has control as defined in Rule 405 of the Securities Act of 1933.

“Annual Base Salary” means, at any time, the Participant’s then annual rate of base salary in effect as of the Date of Termination, including any amounts deferred under the qualified retirement plan or nonqualified deferred compensation plan, but excluding amounts (i) received under short-term or long-term incentive or other bonus plans, regardless of whether or not the amounts are deferred, or (ii) designated by the Company as payment toward reimbursement of expenses.

“Board” means the Board of Directors of the Company, as constituted at any time.

“Cause” means:

(a) the Participant’s willful and continued failure to substantially perform his or her duties with the Company (other than any such failure resulting from the Participant’s Disability), after a written demand for substantial performance is delivered to the Participant, by the Board, the Chief Executive Officer, or other appropriate officer of the Company, that specifically identifies the manner in which the Board, the Chief Executive Officer, or such other appropriate officer believes that the Participant has not substantially performed his or her duties, and the Participant has been given an opportunity, within thirty (30) days following Participant’s receipt of such notice, to meet in person with the Board (or its designee) to explain or defend the alleged act or acts, or failure or failures to act

relied upon by the Company and, to the extent such cure is possible, the Participant has not cured such act or acts or failure or failures to act within the thirty (30) day period;

(b) the Participant's gross negligence or willful engagement in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise;

(c) the Participant's conviction of, or plea of guilty or nolo contendere, to any felony or to any other crime which involves the personal enrichment of the Participant at the expense of the Company; and;

(d) the Participant's material breach of the Company's Code of Business Conduct and Ethics.

Notwithstanding the above, for purposes of this provision, no act or failure to act shall be considered "willful" or "intentional" unless done or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's act or omission was in or not opposed to the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company.

"Change in Control" means the occurrence of any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty percent (20%) or more of either (A) the Class B Common Stock of the Company or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this paragraph (i), unless the Board adopts a resolution stating that such events constitute a Change in Control, the following acquisitions shall not constitute a Change in Control: (I) any acquisition directly from the Company, (II) any acquisition by the Company, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, (IV) transfers of shares of Company stock shown as beneficially owned by Terence E. Adderley, and any subsequent transfers of such shares, (V) an acquisition by an underwriter who temporarily holds securities pursuant to an offering of such securities, or (VI) any acquisition pursuant to a transaction which complies with clauses (A), (B), and (C) of paragraph (c) below; or

(b) Individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date of this Plan whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any

such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another entity (a "Corporate Transaction"), in each case, unless, following such Corporate Transaction, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Class B Common Stock of the Company or the Outstanding Company Voting Securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the Class B Common Stock of the Company or the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction of the Class B Common Stock of the Company or the Outstanding Company Voting Securities, as the case may be; (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) beneficially owns, directly or indirectly, more than twenty percent (20%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such Corporate Transaction, except with respect to any Person who had such ownership in the Company prior to the Corporate Transaction; and (C) at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction were members of the Incumbent Board at the time of the execution of the documentation or action of the Board resulting in a Corporate Transaction; or

(d) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board or any other committee designated by the Board to administer this Plan.

"Company" means Kelly Services, Inc. and its Affiliates, and any successor to its business or assets, by operation of law or otherwise.

"Date of Termination" means: (i) if the Participant's employment is terminated by the Company for Cause or due to Disability, or by the Participant for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein within 30 calendar days after such notice, as the case may be; (ii) if the Participant's employment is terminated by the Company other than for Cause or Disability, or if the Participant voluntarily resigns without Good Reason, the date on which the terminating party notifies the other party that such termination shall be effective,

provided that on a voluntary resignation without Good Reason, the Company may, in its sole discretion, make such termination effective on any date it elects in writing between the date of the notice and the proposed date of termination specified in the notice; or (iii) if the Participant's employment is terminated by reason of death, the date of death of Participant.

"Disability" means the total and permanent inability of an Employee by reason of sickness or injury to perform the material duties of such Employee's regular occupation with his or her Employer where such inability has existed for at least six continuous months.

"Employee" means a full-time salaried employee of the Company.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Good Reason" means, without the Participant's express written consent, the occurrence after the Effective Date of any one (1) or more of the following relative to the status immediately prior to date of a Change in Control event that continues for a period of more than 30 days after the Participant has provided the Company written notice of such occurrence:

- (a) a material diminution in Participant's authority, duties or responsibilities;
- (b) a material reduction in the Participant's Annual Base Salary, provided that a decrease in excess of ten percent (10%) from the highest Annual Base Salary in effect after the Effective Date shall constitute a material reduction;
- (c) a relocation of the Participant's primary work location by more than fifty (50) miles from the Participant's office location immediately prior to such relocation and no nearer to the Participant's residence at such time, except for required travel on the Company's business to an extent substantially consistent with the executive's business travel obligations prior to the Change in Control;
- (d) failure of the Company to continue in effect, or the failure to continue the Participant's participation on substantially the same basis in, any of the Company's short-term incentive compensation and long-term incentive compensation plans in which the Participant participates that results in a material reduction in the Participant's target award levels under such plans; provided, however, that a decrease in the executive's aggregate target award under such plans in excess of ten percent (10%) based on similar metrics from the highest target amount payable after the Effective Date shall constitute a material reduction; and
- (e) any material failure by the Company to satisfy any obligations under an employment agreement, other arrangement, or an offer letter that has been in effect for twelve (12) months, unless terminated or expired earlier by its terms, with the Participant.

A Participant must provide the Company with a written notice detailing the specific circumstances alleged to constitute Good Reason within 90 days after the first occurrence of such circumstances, and must actually terminate employment within 30 days following the expiration of the Company's 30-day cure period described above. Otherwise, any claim of such circumstances as "Good Reason" shall be deemed irrevocably waived by the Participant.

“Incentive Compensation” means with respect to any Company year, the annual incentive the Employee would have been entitled to receive under the Short-Term Incentive Plan or any future plan intended to replace the Short-Term Incentive Plan of the Company providing for incentive compensation had he or she remained employed by the Company.

“Notice of Termination” means a written notice which (i) indicates the specific termination provision in this Plan relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant’s employment under the provision so indicated and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 calendar days after the giving of such notice).

“Other Benefits” has the meaning given to that term in Section 4(a)(vi) hereof.

“Participant” means a Tier 1 Participant or a Tier 2 Participant as designated by the Committee who meets the eligibility requirements of Section 3(a) hereof, until such time as the Participant’s participation ceases in accordance with Section 3(b) hereof.

“Qualified Termination” means any termination of a Participant’s employment: (i) by the Company other than for Cause, Disability or death; or (ii) for Good Reason by a Participant in connection with a Change in Control.

“Release” has the meaning given to that term in Section 5 hereof.

“Section 409A” has the meaning give to that term in Section 21(a) hereof.

“Target Annual Incentive” means a Participant’s target incentive opportunity under the annual Incentive Compensation Plan for the fiscal year in which the Participant’s Qualified Termination occurs or in effect immediately prior to a Change in Control.

“Tier 1 Participant” means, except as otherwise provided in Section 3 hereof, an Employee of the Company serving in a position of Chief Executive Officer.

“Tier 2 Participant” means any designated Employees of the Company serving in the position of a senior officer, subject to the determination and designation by the Committee.

3. Participation.

(a) Designation of Participants. Eligibility to participate in the Plan shall be limited to those key Employees of the Company who qualify as a Tier 1 Participant or who are designated as Tier 2 Participants by the Committee, in its sole discretion. The Committee shall limit the class of persons designated as Participants in the Plan to a “select group of management or highly compensated employees,” within the meaning of Sections 201, 301 and 401 of ERISA. In lieu of expressly designating Tier 2 Participants for Plan participation, the Committee may establish eligibility criteria (consistent with the provisions of this Section 3(a)) providing for participation of one or more Employees qualifying as Tier 2 Participants who satisfy such criteria. Notwithstanding the foregoing, an Employee who is a party to an employment agreement, offer letter, or other arrangement with the Company that provides for severance benefits shall not be

eligible to participate in this Plan, unless such Employee is designated as a Participant by the Committee and such Employee executes any and all documentation as required by the Company to waive all rights to severance benefits under such employment agreement, offer letter, or other arrangement.

(b) Duration of Participation. A Participant shall cease to be a Participant in this Plan if: (i) the Participant ceases to be employed by the Company, unless such Participant is then entitled to a severance benefit as provided in Section 4(a) of this Plan; or (ii) the Committee removes the Employee as a Participant by notice to the Employee in accordance with Section 17 hereof. Further, participation in this Plan is subject to the unilateral right of the Committee to terminate or amend the Plan in whole or in part as provided in Section 17 hereof. Notwithstanding anything herein to the contrary, a Participant who is then entitled to a severance benefit as provided in Section 4(a) of this Plan shall remain a Participant in this Plan until the amounts and benefits payable under this Plan have been paid or provided to the Participant in full. Any severance benefits to be provided to a Participant under this Plan are subject to all of the terms and conditions of the Plan, including Sections 5 and 7.

(c) No Employment Rights. Participation in the Plan does not alter the status of a Participant as an at-will employee, and nothing in the Plan will limit or affect in any manner the right of the Company to terminate the employment or adjust the compensation of a Participant at any time and for any reason (with or without Cause).

4. Severance Benefits.

(a) Qualified Termination. Subject to compliance with Sections 5 and 7 hereof, in the event that a Participant incurs a Qualified Termination, the Participant shall be entitled to the compensation and benefits set forth in this Section 4(a):

(i) Accrued Benefits. The Company shall pay or provide to the Participant the sum of: (A) the Participant's Annual Base Salary earned through the Date of Termination, to the extent not previously paid; (B) any annual Incentive Compensation payable for services rendered in the calendar year preceding the calendar year in which the Date of Termination occurs that has not been paid on or prior to the Date of Termination based on actual performance against the target levels (other than Annual Base Salary and Incentive Compensation that has been deferred, if any, pursuant to Participant's election), (C) any accrued but unused vacation time in accordance with Company policy; and (D) reimbursement for any unreimbursed business expenses incurred through the Date of Termination in accordance with Company policy (the sum of the amounts described in clauses (A) through (D) shall be referred to as the "Accrued Benefits"). The Accrued Benefits shall be paid in a single lump sum within 60 calendar days after the Date of Termination or such earlier date as may be required by the applicable Company plan or policy or by applicable law.

(ii) Severance Payments.

(A) Termination not in Connection with Change in Control. Subject to Sections 5 and 7 hereof, if the Participant's Qualified Termination occurs prior to a Change in Control and not under the circumstances described in Section

4(a)(ii)(B) below, the Company shall make severance payments to the Participant, in installments over the applicable period, in accordance with the Company's regular payroll practices in effect at the Date of Termination, as follows:

I. Tier 1 Participants. If the Participant is a Tier 1 Participant, the Company shall continue to pay to the Participant his or her Annual Base Salary for the twenty-four (24) month period commencing on the Date of Termination.

II. Tier 2 Participants. If the Participant is a Tier 2 Participant, the Company shall continue to pay to the Participant his or her Annual Base Salary for the eighteen (18) month period commencing on the Date of Termination.

(B) Termination in Connection with Change in Control. Subject to Sections 5 and 7 hereof, if the Participant's Qualified Termination occurs within two (2) years after a Change in Control, or within six (6) months prior to a Change in Control and the Participant can demonstrate that his or her Qualified Termination occurred at the request of a third party who had taken steps reasonably calculated to effect a Change in Control, the Company shall make a severance payment to the Participant as follows and the Participant shall be treated as involuntarily terminated without Cause for purposes of Section 15 of the Equity Incentive Plan:

I. Tier 1 Participants. If the Participant is a Tier 1 Participant, the Company shall make a single lump sum payment to the Participant equal to two (2) times the sum of (x) the Participant's Annual Base Salary and (y) the Participant's Target Annual Incentive Compensation.

II. Tier 2 Participants. If the Participant is a Tier 2 Participant, the Company shall make a single lump sum payment to the Participant equal to one and a one-half (1.5) times the sum of (x) the Participant's Annual Base Salary and (y) the Participant's Target Annual Incentive Compensation.

(C) Severance Payment Date. Any severance payable pursuant to this Section 4(a)(ii) will be paid or commence to be paid, as applicable, on the first payroll date following the date the Release becomes effective and irrevocable in accordance with its terms (or, if later, within thirty (30) days after the Change in Control as applicable pursuant to Section 4(a)(ii)(B) above). Further, if the period during which the Participant's Release must become effective and irrevocable in accordance with its terms spans two calendar years, then, to the extent required to comply with Section 409A of the Code, any payment to be made under this Section 4(a)(ii) will commence on the first payroll date that occurs in the second calendar year and after the Release has become effective and irrevocable in accordance with its terms.

(iii) Pro-Rated Annual Incentive.

(A) Termination not in Connection with Change in Control. Subject to Sections 5 and 7 hereof, if the Participant's Qualified Termination occurs prior to a Change in Control and not under the circumstances described in Section

4(a)(ii)(B) above, the Company shall pay to the Participant a pro-rata portion of the Participant's annual Incentive Compensation for such fiscal year that would otherwise be paid if his or her employment or service had continued until the end of such performance period based on the actual results for such year. Such pro-rata payout will be determined by multiplying the amount which would be due for the full fiscal year to such Participant by a fraction, the numerator of which is the number of days during the fiscal year of the Qualified Termination that the Participant is employed by the Company and the denominator of which is 365. Any pro-rated annual Incentive Compensation payable pursuant to this Section 4(a)(iii)(A) shall be paid at the same time that Incentive Compensation for such year are paid to other senior executives of the Company after certification by the Committee that the applicable performance goals have been attained and no later than two and one-half months after the year of the Qualified Termination, and in lieu of (and not in duplication of) any amount otherwise payable to the Participant under the annual Incentive Compensation for such fiscal year.

(B) Payments in Connection with Change in Control. Subject to Section 5 and 7 hereof, as applicable, with respect to a Participant's annual Incentive Compensation for the year that a Change in Control occurs and for the periods described in Section 4(a)(ii)(B) above, the Company shall pay to the Participant (I) for the year in which a Change in Control occurs and in which a Qualified Termination occurs, a pro-rata portion of the Participant's annual Incentive Compensation in effect that would have been payable if the metrics had been achieved at the target level and that would otherwise be paid if his or her employment had continued until the end of such performance period, and (II) for the two years described in Section 4(a)(ii)(B) above that follows a Change in Control and in which a Qualified Termination occurs, a pro-rata portion of the Participant's annual Incentive Compensation in effect for such year that would otherwise be paid if his or her employment had continued until the end of such performance period based on the actual results for such year. Any pro-rata bonus payout will be determined by multiplying the Participant's applicable Annual Incentive by a fraction, the numerator of which is the number of days during the fiscal year of the Qualified Termination that the Participant is employed by the Company and the denominator of which is 365. The annual Incentive Compensation payable pursuant to this Section 4(a)(iii)(B) shall be paid in a single lump sum at the time stated in Section 4(b)(ii)(C) (with respect to the amount referenced in (I) above), or at the same time that Incentive Compensation for the applicable year is paid to other senior executives of the Company after certification by the Committee that the applicable performance goals have been attained and no later than two and one-half months after the year of the Qualified Termination (with respect to the amount referenced in (II) above), and in lieu of (and not in duplication of) any amount otherwise payable to the Participant under the annual Incentive Compensation for such year.

(iv) Welfare Benefits. Subject to Sections 5 and 7 and the Participant's timely election of continued coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA), the Company will provide comparable medical

(including prescription drug), dental, vision and hospitalization benefits to the Participant and his or her eligible dependents for the Severance Period (as defined below), provided the Participant continues to pay the applicable employee rate for such coverage and the employee is eligible and remains eligible for COBRA coverage. Any such coverage provided by the Company shall be provided under the benefit plan(s) applicable to employees of the Company in general and shall be subject to the terms of such plan(s), as such terms may be amended by the Company in its sole discretion from time to time. In the case of any coverage or plan to which COBRA would apply, any continuation of such coverage under COBRA shall begin at the Participant's Qualified Termination date. Any period of continuation coverage required under COBRA shall otherwise be provided in accordance with COBRA and the regulations issued thereunder; provided, however, in the event the Company is unable to provide such coverage on account of any limitations under the terms of any applicable contract with an insurance carrier or third party administrator, or the terms of any applicable plan, the Company shall pay the Participant an amount equal to the portion of the premium or cost for such coverage that is paid by the Company for employees generally. These amounts shall be paid or provided subject to and in accordance with the reimbursement provisions of Section 21(a). During the Severance Period, an amount equal to the portion of the rate paid by the Company for such coverage (based on the COBRA rate) will be included in Participant's income for tax purposes to the extent required by applicable law, and the Company may withhold taxes from Participant's other compensation for this purpose

For purposes of this Section 4(a)(iv) the "Severance Period" means: (A) if the Participant is a Tier 1 Participant, the twenty-four (24) month period following the Participant's Qualified Termination, or until such earlier date on which COBRA coverage for the Participant and his or her covered dependents terminates in accordance with COBRA or (B) if the Participant is a Tier 2 Participant, the eighteen (18) month period following the Participant's Qualified Termination, or until such earlier date on which COBRA coverage for the Participant and his or her covered dependents terminates in accordance with COBRA.

(v) Outplacement. Subject to Section 5 and 7 hereof, the Company shall, at its sole expense as incurred, provide the Participant with outplacement services from a recognized outplacement service provider selected by the Company; provided that (i) the cost to the Company shall not exceed \$10,000, (ii) in no event shall the outplacement services be provided more than twelve (12) months after the Participant's Qualified Termination, and (iii) the Participant requests reimbursement within 90 days after the expense is incurred. The Company shall reimburse such expense within 90 days of the date such expense reimbursement is received from the Participant (or such later date as required in Section 21(a)).

(vi) Other Benefits. To the extent not previously paid or provided, the Company shall pay or provide, or cause to be paid or provided, to the Participant (or his or her beneficiary or estate) any other amounts or benefits required to be paid or provided or which the Participant is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company, including any benefits to which the Participant is entitled under Part 6 of Subtitle B of Title I of ERISA (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits") in accordance with the terms and normal procedures of each such plan, program, policy

or practice or contract or agreement, based on accrued and vested benefits through the Date of Termination.

(b) **Other Terminations.** If a Participant's employment is terminated for Cause or as a result of the Participant's Disability or death, or if the Participant voluntarily terminates his or her employment for any reason, then the Company shall pay or provide to the Participant the Accrued Benefits, payable in accordance with Section 4(a)(i) of this Plan, and the Other Benefits, and no further amounts shall be payable to the Participant under this Section 4 after the Date of Termination.

(c) **Notice of Termination.** Any termination by the Company for Cause or by Participant for Good Reason shall be communicated by Notice of Termination to the Participant and to the Company in accordance with Section 16 and as stated in the Good Reason definition, respectively. The failure by the Company or the Participant to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason shall not waive any right of the Company or the Participant hereunder or preclude the Company or the Participant from asserting such fact or circumstance in enforcing the Company's or the Participant's rights hereunder.

(d) **Resignation from All Positions.** Notwithstanding any other provision of this Plan, upon the termination of a Participant's employment for any reason, unless otherwise requested by the Company, the Participant shall immediately resign from all officer and director positions that he or she may holds with the Company. As a condition of receiving any severance benefits under this Plan, each Participant shall execute any and all documentation to effectuate such resignations upon request by the Company, but he or she shall be treated for all purposes as having so resigned upon termination of his or her employment, regardless of when or whether he or she executes any such documentation.

5. Release. Notwithstanding anything contained herein to the contrary, the Company shall not be obligated to provide any severance payment or benefit under Section 4(a)(ii), (iii), (iv), or (v) hereof unless: (a) the Participant first executes and delivers to the Company within 21 or 45 calendar days after the Date of Termination a fully executed general release of claims substantially in the form attached hereto as Appendix A, with such changes as the Company may determine to be required in order to make such agreement and release enforceable and otherwise compliant with applicable law (the "Release"); (b) the Participant does not timely revoke the Release; and (c) the Release becomes effective and irrevocable in accordance with its terms.

6. No Mitigation. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Participant under any of the provisions of this Plan and such amounts shall not be reduced whether or not the Participant obtains other employment.

7. Restrictive Covenants. The Company's payment obligations and a Participant's right, if any, to severance benefits under Section 4(a) hereof shall immediately cease in the event the Committee determines, in its sole discretion, that the Participant has engaged, or has threatened to engage, in any of the following activities: (i) an activity of competition, as specified in the covenant not to compete set forth in Appendix B with respect to the Participant and the Company,

during the period of restriction specified therein prohibiting the Participant from engaging in such activity; (ii) an activity of solicitation (including solicitation of employees and customers of the Company), as specified in the covenant not to solicit set forth in Appendix B with respect to the Participant and the Company, during the period of restriction specified therein prohibiting the Participant from engaging in such activity; (iii) the disclosure or use of confidential information in violation of the covenant not to disclose set forth in Appendix B with respect to the Participant and the Company; (iv) conduct or actions that disparages, slanders, or injures in violation of the covenant set forth in Appendix B with respect to the Participant and the Company; (v) the failure to return any property or information of the Company, as required by the Company's policies; and (vi) an activity that the Committee determines entitles the Company to seek recovery from the Participant under Company's Incentive Compensation Recovery Policy, any other compensation recoupment or clawback policy maintained by the Company as in effect on the Date of Termination, or any subsequent discovery or determination by the Committee of Cause. Any such cessation of payment shall not reduce any monetary damages that may be available to the Company as a result of such breach.

8. Effect on Other Plans, Agreements and Benefits.

(a) Relation to Other Benefits. Unless otherwise provided herein, nothing in this Plan shall prevent or limit a Participant's continuing or future participation in any plan, program, policy or practice provided by the Company for which the Participant may qualify, nor, except as explicitly set forth in this Plan, shall anything herein limit or otherwise affect such rights as a Participant may have under any other contract or agreement with the Company. Further, the Participant's voluntary termination of employment, with or without Good Reason as might be applicable, shall in no way affect the Participant's ability to terminate employment by reason of the Participant's "retirement" under, or to be eligible to receive benefits under, any compensation and benefits plans, programs or arrangements of the Company, including, without limitation, any retirement or pension plans or arrangements or substitute plans adopted by the Company, and any termination which otherwise qualifies as Good Reason shall be treated as such even it is also a "retirement" for purposes of any such plan. Any economic or other benefit to a Participant under this Plan will not be taken into account in determining any benefits to which the Participant may be entitled under any profit-sharing, retirement, workers compensation or other benefit or compensation plan maintained by the Company (except to the extent provided otherwise in any such plan with respect to Accrued Benefits).

(b) Non-Duplication. Notwithstanding the foregoing provisions of Section 8(a), and except as specifically provided below, any severance benefits received by a Participant pursuant to this Plan shall be in lieu of any general severance policy or other severance plan maintained by the Company (other than a stock option, restricted stock, share or unit, performance share or unit, long-term incentive award, annual incentive award, supplemental retirement, deferred compensation or similar plan or agreement which may contain provisions operative on a termination of the Participant's employment or may incidentally refer to accelerated vesting or accelerated payment upon a termination of employment). Further, as a condition of participating in this Plan, each Participant who is a party to an employment agreement or offer letter with the Company that otherwise would provide for severance benefits acknowledges and agrees that the severance benefits payable under this Plan shall be in lieu of and in full substitution for (and not in duplication of), any right to severance benefits under any such employment agreement or offer

letter with the Company. In addition, while Participants shall not be entitled to receive severance payments under both Sections 4(a)(ii)(A) and 4(a)(ii)(B) for the same Qualified Termination, in the event a Participant's Qualified Termination occurs within the time period specified in Section 4(a)(ii)(B), such Participant shall be entitled to the higher severance payments provided for in Section 4(a)(ii)(B).

9. Certain Tax Matters. In the event it shall be determined that any payment or distribution by the Company to or for the benefit of a Participant (whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise) (the "Total Payments"), is or will be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Total Payments shall be reduced to the maximum amount that could be paid to the Participant without giving rise to the Excise Tax (the "Safe Harbor Cap"), if the net after-tax benefit to the Participant after reducing the Participant's Total Payments to the Safe Harbor Cap is greater than the net after-tax (including the Excise Tax) benefit to the Participant without such reduction. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing first the payments made pursuant to Section 4(a)(ii) of this Plan, then to the payments made pursuant to Section 4(a)(iii) of this Plan, then to the payments made pursuant to Section 4(a)(v) of this Plan, then to the benefits provided pursuant to Section 4(a)(iv) of this Plan, and then to any other payment that triggers such Excise Tax in the following order: (i) reduction of cash payments, (ii) cancellation of accelerated vesting of performance-based equity awards (based on the reverse order of the date of grant), (iii) cancellation of accelerated vesting of other equity awards (based on the reverse order of the date of grant), and (iv) reduction of any other payments due to the Participant (with benefits or payments in any group having different payment terms being reduced on a pro-rata basis). All mathematical determinations, and all determinations as to whether any of the Total Payments are "parachute payments" (within the meaning of Section 280G of the Code), that are required to be made under this paragraph, including determinations as to whether the Total Payments to Participant shall be reduced to the Safe Harbor Cap and the assumptions to be utilized in arriving at such determinations, shall be made at the Company's expense by the Company's then current independent auditors, or such other accounting, valuation firm, law firm, or other organization with experience on these matters, as selected by the Committee prior to the relevant Change in Control.

10. Administration. The Committee shall have complete discretion to interpret where necessary all provisions of the Plan (including, without limitation, by supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the Plan), to make factual findings with respect to any issue arising under the Plan, to determine the rights and status under the Plan of Participants or other persons, to resolve questions (including factual questions) or disputes arising under the Plan and to make any determinations with respect to the benefits payable under the Plan and the persons entitled thereto as may be necessary for the purposes of the Plan. Without limiting the generality of the foregoing, the Committee is hereby granted the authority (a) to determine whether a particular Employee is a Participant, and (b) to determine if a person is entitled to benefits hereunder and, if so, the amount and duration of such benefits. The Committee may delegate, subject to such terms as the Committee shall determine, any of its authority hereunder to one or more officers of the Company. In the event of such delegation, all references to the Committee in this Plan shall be deemed references to such delegates as it relates to those aspects of the Plan that have been delegated. The Committee's determination of the rights of any person hereunder shall be final and binding on all persons.

11. Claims for Benefits.

(a) Filing a Claim. Any Participant or beneficiary who wishes to file a claim for benefits under the Plan shall file his or her claim in writing with the Company. Any such claim should be sent to the Company's General Counsel or to the Senior Vice President, Human Resources.

(b) Review of a Claim. The Company shall, within 90 calendar days after receipt of such written claim (unless special circumstances require an extension of time, but in no event more than 180 calendar days after such receipt), send a written notification to the Participant or beneficiary as to its disposition. If the claim is wholly or partially denied, such written notification shall (i) state the specific reason or reasons for the denial, (ii) make specific reference to pertinent Plan provisions on which the denial is based, (iii) provide a description of any additional material or information necessary for the Participant or beneficiary to perfect the claim and an explanation of why such material or information is necessary, and (iv) set forth the procedure by which the Participant or beneficiary may appeal the denial of his or her claim, including, without limitation, a statement of the claimant's right to bring an action under Section 502(a) of ERISA following an adverse determination on appeal.

(c) Appeal of a Denied Claim. If a Participant or beneficiary wishes to appeal the denial of his or her claim, he or she must request a review of such denial by making application in writing to the Committee within 60 calendar days after receipt of such denial. The Participant or beneficiary (or his or her duly authorized legal representative) may submit, in writing, issues and comments in support of his or her position. A Participant or beneficiary who fails to file an appeal within the 60-day period set forth in this Section 11(c) shall be prohibited from doing so at a later date or from bringing an action under ERISA.

(d) Review of a Claim on Appeal. Within 60 calendar days after receipt of a written appeal (unless the Committee determines that special circumstances, such as the need to hold a hearing, require an extension of time, but in no event more than 120 calendar days after such receipt), the Committee shall notify the Participant or beneficiary of the final decision. The final decision shall be in writing and shall include (i) specific reasons for the decision, written in a manner calculated to be understood by the claimant, (ii) specific references to the pertinent Plan provisions on which the decision is based, (iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents relevant to the claim for benefits, and (iv) a statement describing the claimant's right to bring an action under Section 502(a) of ERISA.

(e) Legal Fees and Expenses. If a Participant institutes legal action in seeking to obtain or enforce, or is required to defend in any legal action the validity or enforceability of, any right or benefit provided by this Plan, the Company shall pay or reimburse (within 30 days following the Company's receipt of an invoice from the Participant) the Participant's reasonable legal fees and expenses (including without limitation, any and all court costs and reasonable attorneys' fees and expenses) incurred in connection with or as a result of any such legal action, provided that such amount shall not exceed \$35,000, except as stated herein. The Company shall reimburse all reasonable legal fees and expenses if the Participant prevails on a claim for a material benefit pursuant to this Plan. Notwithstanding the foregoing, if the Participant does not prevail (after

exhaustion of all available judicial remedies) in respect of at least one claim for a material benefit hereunder, then no further reimbursement for legal fees and expenses shall be due to the Participant in respect of such claim and the Participant shall refund any amounts previously reimbursed hereunder with respect to such legal action.

12. Participants Deemed to Accept Plan. By accepting any payment or benefit under the Plan, each Participant and each person claiming under or through any such Participant shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, all of the terms and conditions of the Plan and any action taken under the Plan by the Committee, the Company, in any case in accordance with the terms and conditions of the Plan.

13. Successors.

(a) Company Successors. This Plan shall bind any successor of the Company, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company would be obligated under this Plan if no succession had taken place. The Company shall require any such successor to expressly assume and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(b) Participant Successors. The rights of a Participant to receive any benefits hereunder shall not be assignable, transferable or delegable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by his or her will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 13(b), the Company shall have no liability or obligation to pay any amount so attempted to be assigned, transferred or delegated. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process. This Plan shall inure to the benefit of a Participant's heirs, executors, administrators and legal representatives and beneficiaries.

14. Unfunded Status. All payments pursuant to the Plan shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure payment. No Participant or other person shall have under any circumstances any interest in any particular property or assets of the Company as a result of participating in the Plan.

15. Withholding. The Company may withhold from any amounts payable under this Plan all federal, state, city or other taxes as the Company are required to withhold pursuant to any law or government regulation or ruling.

16. Notices. Any notice provided for in this Plan shall be in writing and shall be either personally delivered, sent by reputable overnight carrier or mailed by first class mail, return receipt requested, to the recipient. Notices to Participant shall be sent to the address of Participant most recently provided to the Company. Notices to the Company should be sent to Kelly Services, Inc. 999 West Big Beaver Road, Troy, Michigan 48084, Attention: General Counsel (or with respect to a notice by the General Counsel to the Company, such notice should be sent to the Senior Vice President, Human Resources). Notice and communications shall be effective on the date of

delivery if delivered by hand, on the first business day following the date of dispatch if delivered utilizing overnight courier, or three business days after having been mailed, if sent by first class mail.

17. Amendments; Termination. The Committee expressly reserves the unilateral right, at any time, without the consent of the impacted Participant or Participants, to amend or terminate the Plan in whole or in part, including without limitation to remove individuals as Participants or to modify or eliminate all or any benefits under Section 4 hereof; provided that (a) no such action shall impair the rights of a Participant who previously has incurred a Qualified Termination unless such amendment, modification, removal or termination is agreed to in a writing signed by the Participant and the Company and (b) the Plan may not be terminated or amended within six (6) months before or two (2) years after a Change in Control in any manner that would adversely affect the benefits available to any Participant under the Plan. If such notice is delivered by the Company, this Plan (or the participation of selected executives), along with all corresponding rights, duties, and covenants shall automatically be amended or expire as stated in such notice.

Notwithstanding the above, the Committee may modify the Plan at any time without the executives' consent to comply with the requirements of Section 409A of the Code and any other rule, regulation, or statute, as determined by the Committee in its sole and absolute discretion.

Section 7 (relating to confidentiality, non-competition, non-solicitation, non-disparagement, return of property, and recoupment) and Section 18 (relating to governing law) shall survive the termination of this Plan.

18. Governing Law. This Plan shall be governed, construed, interpreted and enforced in accordance with the substantive laws of the State of Michigan, without regard to conflicts or choice of law under which the law of any other jurisdiction would apply.

19. Severability. Whenever possible, each provision of this Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Plan is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Plan shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

20. Headings. Headings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

21. Section 409A.

(a) In General. Section 409A of the Code ("Section 409A") imposes payment restrictions on "nonqualified deferred compensation" (*i.e.*, potentially including payments owed to a Participant upon termination of employment). Failure to comply with these restrictions could result in negative tax consequences to a Participant, including immediate taxation, interest and a 20% additional income tax. It is the Company's intent that this Plan be exempt from the application of, or otherwise comply with, the requirements of Section 409A. Specifically, any taxable benefits or payments provided under this Plan are intended to qualify for the "short-term

deferral” exception to Section 409A to the maximum extent possible, and to the extent they do not so qualify, are intended to qualify for the involuntary separation pay exceptions to Section 409A, to the maximum extent possible. Each installment of any taxable benefits or payments provided under this Plan is intended to be treated as a separate payment for purposes of Section 409A. To the extent that Section 409A is applicable to any taxable benefit or payment, and if a Participant is a “specified employee” as determined by the Company in accordance with Section 409A, then notwithstanding any provision in this Plan to the contrary and to the extent required to comply with Section 409A, all such amounts that would otherwise be paid or provided to such Participant during the first six months following the Date of Termination shall instead be accumulated through and paid or provided (without interest) on the first business day following the six-month anniversary of the Date of Termination (or, if the Participant dies during such six-month period, within 30 days after the Participant’s death). Notwithstanding any provision of this Plan to the contrary, but only to the extent required to comply with Section 409A, any severance payable pursuant to Section 4(a)(ii)(B) of this Agreement shall be paid (i) in a lump sum if the Change in Control constitutes a “change in control event” within the meaning of Treasury Regulation § 1.409A-3(i)(5), or (ii) in installments over the applicable 24-month (Tier 1), or 18-month (Tier 2) period if the Change in Control does not constitute a “change in control event” within the meaning of Treasury Regulation § 1.409A-3(i)(5). With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, including benefits pursuant to Sections 4(a)(iv) and (v), except as permitted by Section 409A: (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of the Participant’s taxable year following the taxable year in which the expense occurred, or such earlier date as required hereunder.

Although the Company shall use its best efforts to avoid the imposition of taxation, interest and penalties under Section 409A of the Code, the tax treatment of deferrals under this Plan is not warranted or guaranteed. Neither the Company, its officers and employees, the Board, the administrator nor advisers shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant or beneficiary or other taxpayer as a result of the Plan.

(b) Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Plan providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Section 409A and the Participant is no longer providing services (at a level that would preclude the occurrence of a “separation from service” within the meaning of Section 409A) to the Company as an employee or consultant, and for purposes of any such provision of this Plan, references to a “termination,” “termination of employment” or like terms shall mean “separation from service” within the meaning of Section 409A.

22. Compliance with Section 162(m) Notwithstanding any provision of this Plan, any amount that is intended to qualify as “qualified performance-based compensation” within the meaning of Section 162(m) of the Code will continue to be administered, interpreted, and construed to carry out such intention and any provision in this Plan that cannot be so administered,

interpreted, and construed to that extent shall be disregarded, provided that in the event of a Change in Control the Committee shall decide in advance of such event how to interpret and apply this provision to outstanding awards at that time.

[END OF DOCUMENT]

APPENDIX A
GENERAL RELEASE

This General Release (this "Release") is entered into by and between _____ ("Executive") and Kelly Services, Inc. (the "Company,"") as of the ____ day of _____ 20__.

1. Employment Status. Executive's employment with the Company and its affiliates terminated effective as of _____, 20__. As used in this Release, the term "Affiliate" will mean any entity controlled, directly or indirectly, by the Company.

2. Payments and Benefits. Upon the effectiveness of the terms set forth herein, the Company will provide Executive with the benefits set forth in Section 4(a) of the Kelly Services, Inc. Senior Executive Severance Plan (the "Severance Plan"), upon the terms, and subject to the conditions, of the Severance Plan.

3. No Admission of Liability. This Release does not constitute an admission by the Company or its Affiliates or their respective officers, directors, partners, agents, or employees, or by Executive, of any unlawful acts or of any violation of federal, state or local laws.

4. Claims Released by Executive. In consideration of the payments and benefits set forth in Section 4(a) of the Severance Plan, Executive for himself/herself, his/her heirs, administrators, representatives, executors, successors and assigns (collectively, "Releasors") does hereby irrevocably and unconditionally release, acquit and forever discharge the Company, its respective Affiliates and their respective predecessors, successors and assigns (the "Kelly Group") and each of its officers, directors, partners, agents, and former and current employees, including without limitation all persons acting by, through, under or in concert with any of them (collectively, "Releasees"), and each of them, from any and all claims, demands, actions, causes of action, costs, expenses, attorney fees, and all liability whatsoever, whether known or unknown, fixed or contingent, which Executive has, had, or may ever have against the Releasees relating to or arising out of Executive's employment or separation from employment with the Kelly Group, from the beginning of time and up to and including the date Executive executes this Release. This Release includes, without limitation: (a) law or equity claims; (b) contract (express or implied) or tort claims; (c) claims for wrongful discharge, retaliatory discharge, whistle blowing (including the Michigan Whistleblowers Protection Act), libel, slander, defamation, unpaid compensation, wage and hour violations, intentional infliction of emotional distress, fraud, public policy contract or tort (including the federal Sarbanes-Oxley Act of 2002), and implied covenant of good faith and fair dealing, whether based in common law or any federal, state or local statute; (d) claims under or associated with any of the Kelly Group's incentive compensation plans or arrangements; (e) claims arising under any federal, state, or local laws of any jurisdiction that prohibit age, sex, race, national origin, color, disability, religion, veteran, military status, sexual orientation, or any other form of discrimination, harassment, or retaliation (including without limitation under the Age Discrimination in Employment Act of 1967 as amended by the Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964 as amended by the Civil Rights Act of 1991, the Michigan Elliot Larsen Civil Rights Act, the Equal Pay Act of 1963, the Americans with Disabilities Act of 1990, the Michigan Persons with Disabilities Act, the Rehabilitation Act, the Family and Medical Leave Act, the Sarbanes-Oxley Act, the Employee Polygraph Protection Act,

the Uniformed Services Employment and Reemployment Rights Act of 1994, the Lilly Ledbetter Fair Pay Act, or any other foreign, federal, state or local law or judicial decision); (f) claims arising under the Employee Retirement Income Security Act; and (g) any other statutory or common law claims related to Executive's employment with the Kelly Group or the separation of Executive's employment with the Kelly Group.

Without limiting the foregoing paragraph, Executive represents that he/she understands that this Release specifically releases and waives any claims of age discrimination, known or unknown, that Executive may have against the Kelly Group as of the date he/she signs this Release. Executive acknowledges that as of the date he/she signs this Release, he/she may have certain rights or claims under the Age Discrimination in Employment Act, 29 U.S.C. §626, and he/she voluntarily relinquishes any such rights or claims by signing this Release.

Notwithstanding the foregoing provisions of this Section 4, nothing herein will release the Kelly Group from (i) any obligation under the Severance Plan, including without limitation Section 4(a) of the Severance Plan; (ii) any obligation to provide all benefit entitlements under any Company benefit or welfare plan that were vested as of the Date of Termination, including the Company's 401(k) plan and the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended; and (iii) any rights or claims that relate to events or circumstances that occur after the date that Executive executes this Release. In addition, nothing in this Release is intended to interfere with Executive's right to file a charge with the Equal Employment Opportunity Commission or any state or local human rights commission in connection with any claim Executive believes he/she may have against the Releasees. However, by executing this Release, Executive hereby waives the right to recover any remuneration, damages, compensation or relief of any type whatsoever from the Company in any proceeding that Executive may bring before the Equal Employment Opportunity Commission or any similar state commission or in any proceeding brought by the Equal Employment Opportunity Commission or any similar state commission on Executive's behalf.

5. Representations. Executive acknowledges and represents that, as an employee of the Company and its Affiliates, he/she has been obligated to, and has been given the full and unfettered opportunity to, report timely to the Company any conduct that would give rise to an allegation that the Company or any Affiliate has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way, even if such conduct is not, or does not appear to be, a violation of any law. Executive acknowledges that a condition of the payment of the benefits under Section 2 of this Release is his/her truthful and complete representation to the Company regarding any such conduct, including but not limited to conduct regarding compliance with the Company's Code of Business Conduct and Ethics, policies and procedures, and with all laws and standards governing the Company's business. Executive's truthful and complete representation, based on his/her thorough search of his/her knowledge and memory, is as follows: Executive has not been directly or indirectly involved in any such conduct; no one has asked or directed him/her to participate in any such conduct; and Executive has no specific knowledge of any conduct by any other person(s) that would give rise to an allegation that the Company or any Affiliate has violated any laws applicable to its businesses or has engaged in conduct which could otherwise be construed as inappropriate or unethical in any way.

6. Bar To Further Claims. Executive promises not to commence litigation against the Kelly Group in court for any claims covered by this Release and not excluded by the exclusions above. Executive acknowledges and agrees that if he/she should hereafter make any claim or demand or commence or threaten to commence any action, claim or proceeding against the Releasees (with the exception of the filing of charges of discrimination contemplated by Section 4 of this Release) with respect to any cause, matter or thing which is the subject of the release under Section 4 of this Release, this Release may be raised as a complete bar to any such action, claim or proceeding, and the applicable Releasee may recover from Executive all costs incurred in connection with such action, claim or proceeding, including attorneys' fees, along with the benefits set forth in Section 4 of the Severance Plan. This promise not to commence litigation is separate from, and in addition to Executive's release of claims described herein.

7. Governing Law. This Release will be governed by and construed in accordance with the laws of the State of Michigan, without regard to conflicts or choice of law under which the law of any other jurisdiction will apply.

8. Acknowledgment. Executive has read this Release, understands it, and voluntarily accepts its terms, and Executive acknowledges that he/she has been advised by the Company to seek the advice of legal counsel before entering into this Release. Executive acknowledges that he/she was given a period of [21] [45] calendar days within which to consider and execute this Release, and to the extent that he/she executes this Release before the expiration of the [21] [45] calendar day period, he/she does so knowingly and voluntarily and only after consulting his/her attorney. Executive agrees he/she had adequate time to review the procedural and substantive requirements for execution of this Release under the Older Worker Benefit Protection Act and Age Discrimination in Employment Act with Executive's legal counsel and further agrees that Company has complied with those procedural and substantive requirements.

Executive acknowledges and agrees that the amounts payable by the Kelly Group pursuant to the Severance Plan represent substantial value over and above that to which Executive would otherwise be entitled. The consideration set forth in the Severance Plan is in full accord and satisfaction of any claims and any causes of action that Executive has, may have, or may have had against the Company and its Affiliates related to, arising in the course of or arising out of Executive's employment or the termination of Executive's employment.

9. Early Submission of Agreement. Executive may voluntarily and knowingly sign, but is not required to sign, this Release before the end of the twenty-one (21) day period, provided that Executive signs the attached Early Submission Form. The Company has made no promises, inducements, representations, or threats to cause Executive to sign this Release before the end of the twenty-one (21) day period. If Executive voluntarily and knowingly signs this Release before the end of the twenty-one (21) day period, the mandatory seven (7) day revocation period set forth in Section 10 will start on the day after the day on which Executive signs this Agreement.

10. Revocation. Executive has a period of 7 calendar days following the execution of this Release during which Executive may revoke this Release by delivering written notice to the Company pursuant to Section 16 of the Severance Plan. This Release will not become effective or enforceable until such revocation period has expired, and no revocation has occurred. Executive understands that if he/she revokes this Release, it will be null and void in its entirety, and he/she

will not be entitled to any payments or benefits provided pursuant to the Severance Plan. Executive understands that by signing this Release and by not revoking the Release during the seven (7) day revocation period, Executive shall be bound by this Release.

To be effective, any revocation must be in writing, addressed to Kelly Services, Senior Vice President, Human Resources, 999 W. Big Beaver Road, Troy, Michigan 48084, and either postmarked within the seven (7) day revocation period or hand delivered to the Company within the seven (7) day revocation period. If revocation is made by mail, mailing by certified mail return receipt requested is recommended to show proof of mailing.

11. Miscellaneous. This Release, together with the Severance Plan and any agreements concerning restrictive covenants referenced in Section 7 of the Severance Plan, represents the final and entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, negotiations and discussions between the parties hereto and/or their respective counsel with respect to the subject matter hereof. Executive has not relied upon any representations, promises or agreements of any kind except those set forth herein in signing this Release. In the event that any provision of this Release should be held to be invalid or unenforceable, each and all of the other provisions of this Release will remain in full force and effect. If any provision of this Release is found to be invalid or unenforceable, such provision will be modified as necessary to permit this Release to be upheld and enforced to the maximum extent permitted by law. Executive agrees to execute such other documents and take such further actions as reasonably may be required by the Kelly Group to carry out the provisions of this Release.

12. Counterparts. This Release may be executed by the parties hereto in counterparts (including by means of facsimile or other electronic transmission), each of which will be deemed an original, but all of which taken together will constitute one original instrument.

IN WITNESS WHEREOF, the parties have executed this Release on the date first set forth above.

KELLY SERVICES, INC.

By: _____

Its: _____

Dated: _____

EXECUTIVE

By: _____

Dated: _____

EARLY SUBMISSION FORM

_____ (“Executive”) is voluntarily and knowingly submitting the signed Release (“Agreement”) to Kelly Services, Inc. (referred to collectively as “Employer”) on this date.

1. Executive is voluntarily and knowingly submitting the signed Agreement before the end of the twenty-one (21) day period specified in Paragraph 4(b) of the Agreement.
2. Executive understands that Executive e is not required to sign the Agreement or to submit the signed Agreement before the end of the twenty-one (21) day period.
3. Executive agrees that, as stated in Paragraphs 9 of the Release, Employer has made no promises, inducements, representations, or threats to cause Employee to sign the Agreement before the end of the twenty-one (21) day period.
4. Executive understands that the mandatory seven (7) day revocation period, as stated in Paragraph 10 of the Release, will start on the day after the day on which Executive signs the Agreement.
5. Executive understands that by signing this Agreement before the expiration of the twenty-one (21) day period and by not revoking the Agreement during the seven (7) day revocation period, the payments set forth in the Severance Plan of the Agreement shall commence on an expedited basis.

EMPLOYEE NAME

Dated: _____

APPENDIX B
RESTRICTIVE COVENANTS

As further detail and in addition to the restrictive covenants stated in Section 7 of the Kelly Services, Inc. Senior Executive Severance Plan (the "Plan"), Kelly Services, Inc.'s (the Company") payment obligations and an Executive's right, if any, to severance benefits under Section 4(a) of the Plan shall immediately cease in the event the Committee determines, in its sole discretion, that the Executive has engaged, or has threatened to engage, in any of the following activities:

(i) For a period of twelve (12) months after an Executive's termination of employment, the Executive shall not directly or indirectly, individually, or as a director, employee, officer, principal, agent, or in any other capacity or relationship, engage in any business or employment, or aid or endeavor to assist any business or legal entity that is in direct competition with the business of the Company as then being carried out (provided, however, that notwithstanding anything to the contrary contained in the Plan, an Executive may own up to two percent (2%) of the outstanding shares of the capital stock of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934). An Executive acknowledges that the Company has operations in all 50 states, the District of Columbia and at least twenty-nine other countries, that the Company's strategic plan is to continue to expand its operations and presence both domestically and internationally and that the Executive's services are integral to these operations and expansion plans.

(ii) During an Executive's employment with the Company, and during the twelve (12) month period following any termination of an Executive's employment for any reason, Executive shall not, except in the course of carrying out his or her duties hereunder, directly or indirectly induce any employee of the Company to terminate employment with such entity, and shall not directly or indirectly, either individually or as owner, agent, employee, consultant or otherwise, knowingly employ or offer employment to any person who is or was employed by the Company unless such person shall have ceased to be employed by such entity for a period of at least six (6) months.

(iii) Executive shall not, directly or indirectly, during his or her employment with the Company and during the twelve (12) month period following any termination of an Executive's employment for any reason engage in any Solicitation.

(iv) Executive shall not disparage, slander or injure the business reputation or goodwill of the Company in any material way, including, by way of illustration, through any contact with vendors, suppliers, employees or agents of the Company which could harm the business reputation or goodwill of the Company.

(v) The Company has advised the Executive and the Executive acknowledges that it is the policy of the Company to maintain as secret and confidential all Protected Information, and that Protected Information has been and will be developed at substantial cost and effort to the Company. All Protected Information shall remain confidential permanently, and the Executive shall not, at any time, directly or indirectly, divulge, furnish, or make accessible to any person, firm, corporation, association, or other entity (otherwise than as may be required in the regular

course of the Executive's employment with the Company), nor use in any manner, either during the term of employment or after termination, at any time, for any reason, any Protected Information, or cause any such information of the Company to enter public domain.

For purposes of this Appendix B, the following terms shall mean as stated below:

"Solicitation" means to solicit, divert or attempt to solicit or divert from the Company, any work or business related to the employee staffing and consulting services business, which includes, but is not limited to, direct placement, outplacement, outsourcing, recruitment, recruitment process outsourcing, temporary staffing services, management services, vendor on-site, vendor management, and consulting services (the "Company's Business"), or otherwise related to any activity that is in competition with the Company, from any client or customer, or potential client or customer, of the Company for either the Executive or any other entity that may employ, engage, or associate with the Executive in any fashion, or have any contact, through business-oriented social networking sites or otherwise, with any client or customer, or potential client or customer, of the Company for either the Executive or any other entity that may employ, engage or associate with the Executive in any fashion, for purposes of influencing any such client or customer, or potential client or customer, to not use or not continue to use the Company for work or business related to the Company's Business (provided, however, that notwithstanding anything to the contrary contained in this document, an Executive may own up to two percent (2%) of the outstanding shares of the capital stock of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934). For purposes of this section, "client(s)" or "customer(s)" of the Company, shall mean any individual, corporation, limited liability company, partnership, proprietorship, firm, association, or any other entity that the Company has invoiced during the preceding twelve (12) months, and "potential client(s) or customer(s)" shall be any individual, corporation, limited liability company, partnership, proprietorship, firm, association, or any other entity that the Executive knew or should have known was a potential customer through personal knowledge or had any personal exposure through Company meetings or marketing efforts, during the preceding twelve (12) months.

"Protected Information" means trade secrets, confidential and proprietary business information of the Company, and any other information of the Company, including, but not limited to, customer lists (including potential customers), sources of supply, processes, plans, materials, pricing information, internal memoranda, marketing plans, internal policies, and products and services which may be developed from time to time by the Company and its agents or employees, including the Executive; provided, however, that information that is in the public domain (other than as a result of a breach of this provision) is not Protected Information.

CERTIFICATIONS

I, George S. Corona, 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: May 11, 2017

/s/ George S. Corona
George S. Corona
President and
Chief Executive Officer

CERTIFICATIONS

I, Olivier G. Thirot, 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: May 11, 2017

/s/ Olivier G. Thirot
Olivier G. Thirot
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 April 2, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George S. Corona, 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: May 11, 2017

/s/ George S. Corona
George S. Corona
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 April 2, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Olivier G. Thiro, 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: May 11, 2017

/s/ Olivier G. Thiro
Olivier G. Thiro
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.