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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 29, 2024

KELLY SERVICES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	0-1088	38-1510762
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS 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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Item 2.01 Completion of Acquisition or Disposition of Assets.

On June 3, 2024, Kelly Services, Inc. (the “Company”), filed with the U.S. Securities and Exchange Commission (“SEC”) a Current Report on Form 8-K (the “Initial Report”) to announce the completion of the acquisition of Motion Recruitment Partners, LLC ("MRP") by way of a merger with MRP Merger Sub, Inc. ("Merger Sub"), a newly-formed, wholly owned subsidiary of the Company, with and into MRP Topco ("Topco"), the indirect parent company of MRP and Littlejohn Fund V, L.P. ("Littlejohn"), with Topco surviving the merger (the "Merger").

This Current Report on Form 8-K/A amends the Initial Report to include the pro forma financial information required by Item 9.01 of Form 8-K that were previously omitted from the Initial Report as permitted by Item 9.01(a)(4).

The pro forma financial information included in this Current Report on Form 8-K/A has been presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the acquisition occurred as of the dates indicated, nor is it meant to be indicative of any anticipated financial position or future results of operations that the Company will experience after the acquisition.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of business acquired.

The audited consolidated financial statements of Topco as of December 31, 2023 and 2022 and for the years then ended and the accompanying notes thereto, are incorporated by reference as Exhibit 99.1 hereto.

The unaudited condensed consolidated financial statements of Topco as of March 31, 2024 and 2023 and for the three months then ended and the accompanying notes thereto, are incorporated by reference as Exhibit 99.2 hereto.

(b) Pro forma financial information.

The following unaudited pro forma financial information of the Company is filed as Exhibit 99.3 and is incorporated herein by reference:

a. Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2024.
b. Unaudited Pro Forma Condensed Combined Statement of Earnings for the year ended December 31, 2023 and the three months ended March 31, 2024.
c. Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Grant Thornton LLP.
99.1	The audited consolidated financial statements of MRP Topco, Inc. as of and for the years ended December 31, 2023 and December 31, 2022 and the related notes.
99.2	The unaudited consolidated financial statements of MRP Topco, Inc. as of and for the three months ended March 31, 2024 and March 31, 2023 and the related notes.
99.3	The unaudited pro forma condensed combined financial information of the Company, giving effect to the acquisition of MRP Topco, which includes the unaudited pro forma condensed combined balance sheet as of March 31, 2024, the unaudited pro forma combined statement of earnings for the year ended December 31, 2023 and for the three months ended March 31, 2024 and the related notes.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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, hereunto duly authorized.

July 30, 2024

/s/ Olivier G. Thirot
Olivier G. Thirot

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

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated July 1, 2024, with respect to the consolidated financial statements of MRP Topco, Inc. for the year ended December 31, 2023, included in the Current Report of Kelly Services, Inc. on Form 8-K/A dated July 30, 2024. We consent to the incorporation by reference of said report in the Registration Statements of Kelly Services, Inc. on Form S-3 (File No. 333-271834) and Form S-8 (File No. 333-218039, File No. 333-114837, File No. 333-125091, File No. 333-166798 and File No. 333-201165).

/s/ GRANT THORNTON LLP
Boston, Massachusetts
July 30, 2024

Consolidated Financial Statements and Report of Independent Certified Public Accountants

MRP Topco, Inc.

December 31, 2023 and 2022

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
MRP Topco, Inc.

Opinion
We have audited the consolidated financial statements of MRP Topco, Inc. (a Delaware corporation) and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' equity (deficiency), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion
We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are issued.

Grant Thornton

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Boston, Massachusetts
July 1, 2024

MRP Topco, Inc.

CONSOLIDATED BALANCE SHEETS

December 31,
(In thousands except per share amounts)

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,124	$ 31,547
Accounts receivable, net of allowance for placement fall-offs and credit losses of $2,622 and $2,719 for 2023 and 2022, respectively	69,412	82,540
Unbilled receivables	18,905	23,080
Prepaid expenses and other current assets	4,241	3,815
Prepaid income taxes	1,437	847
Cloud computing costs	2,324	593
Total current assets	107,443	142,422
Property and equipment, net	3,947	3,345
Security deposits	1,334	1,432
Right-of-use assets, net	13,502	17,964
Goodwill	148,684	148,684
Deferred tax asset, net	-	2,372
Interest rate cap	49	-
Intangible assets, net	9,452	10,529
Cloud computing costs, net of current portion	13,168	3,558
Total assets	$ 297,579	$ 330,306
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable	$ 14,664	$ 20,356
Accrued expenses	15,534	36,075
Lease liabilities, current portion	4,137	4,732
Deferred tax liability, net	3,330	-
Asset-based line of credit	6,000	-
Long-term debt, current portion	-	2,426
Total current liabilities	43,665	63,589
Long-term debt, net of current portion	227,176	230,007
Lease liabilities, net of current portion	10,512	14,648
Total liabilities	281,353	308,244
Shareholders' equity (deficiency)		
Common stock, $0.001 par value per share, 110,000 shares authorized; 65,469 and 65,401 shares issued and outstanding as of December 31, 2023 and 2022, respectively	-	-
Additional paid-in capital	153,418	152,666
Accumulated deficit	(137,068)	(130,429)
Accumulated other comprehensive loss	(124)	(175)
Total shareholders' equity (deficiency)	16,226	22,062
Total liabilities and shareholders' equity (deficiency)	$ 297,579	$ 330,306

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

MRP Topco, Inc.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended December 31,
(In thousands)

	2023	2022
Net revenues	$ 554,118	$ 645,588
Cost of services	470,115	532,816
Gross profit	84,003	112,772
Operating expenses	51,865	56,397
Merger and acquisition expenses	217	254
Share-based compensation expense	645	808
Related party management fees	313	402
Income from operations	30,963	54,911
Other income (expenses)		
Interest expense and amortization of debt issuance costs	(28,998)	(22,221)
Interest income	421	-
(Loss) gain on foreign exchange	(43)	96
Income before income tax expense	2,343	32,786
Income tax expense	8,982	9,839
NET (LOSS) INCOME	$ (6,639)	$ 22,947

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

MRP Topco, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31,
(In thousands)

	2023	2022
Net (loss) income	$ (6,639)	$ 22,947
Other comprehensive (loss) income		
Translation gain (loss) on net assets and operations of foreign subsidiary	51	(251)
COMPREHENSIVE (LOSS) INCOME	$ (6,588)	$ 22,696

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

MRP Topco, Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

Years ended December 31, 2023 and 2022
(In thousands, except shares)

	Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	Total Shareholders' Equity
	Shares	Amount	Paid-in Capital	Deficit	Income (Loss)	(Deficiency)
Shareholders' equity (deficiency) at December 31, 2021	65,401	$ -	$ 152,022	$ (153,376)	$ 76	$ (1,278)
Repurchase of shares	(45)	-	(215)	-	-	(215)
Share-based compensation	-	-	808	-	-	808
Exercise of stock options	45	-	51	-	-	51
Other comprehensive loss	-	-	-	-	(251)	(251)
Net income	-	-	-	22,947	-	22,947
Shareholders' equity (deficiency) at December 31, 2022	65,401	$ -	152,666	(130,429)	(175)	22,062
Repurchase of shares	(4)	-	(15)	-	-	(15)
Share-based compensation	-	-	645	-	-	645
Exercise of stock options	72	-	122	-	-	122
Other comprehensive income	-	-	-	-	51	51
Net loss	-	-	-	(6,639)	-	(6,639)
Shareholders' equity (deficiency) at December 31, 2023	65,469	$ -	$ 153,418	$ (137,068)	$ (124)	$ 16,226

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

MRP Topco, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
(In thousands)

	2023	2022
Cash flow from operating activities:		
Net (loss) income	$ (6,639)	$ 22,947
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,409	3,255
Amortization of debt issuance costs	1,697	1,697
Amortization of right-of-use assets	4,462	4,809
Amortization of capitalized cloud computing costs	625	69
Stock compensation expense	645	808
Provision for fall-off and credit losses	846	1,060
Loss on disposal of fixed assets	-	30
Change in fair value of interest rate cap	266	-
Changes in operating assets and liabilities:		
Accounts receivable	12,282	3,831
Unbilled receivable	4,175	2,244
Prepaid expenses and other current assets	(426)	(116)
Prepaid income taxes	(676)	506
Deferred income taxes	5,788	1,949
Security deposits	98	(34)
Cloud computing costs	(11,376)	(4,220)
Accounts payable	(6,282)	3,530
Accrued expenses	(20,541)	(11,924)
Operating lease liability	(4,731)	(3,393)
Net cash (used in) provided by operating activities	(16,378)	27,048
Cash flows from investing activities:		
Purchases of property and equipment	(2,934)	(1,466)
Net cash used in investing activities	(2,934)	(1,466)
Cash flows from financing activities:		
Debt issuance costs	-	(37)
Cash paid for interest rate cap premium	(315)	-
Proceeds from issuance of long term debt	(6,954)	-
Repayments of long-term debt	-	(2,426)
Proceeds from asset-based line of credit	6,000	-
Repayments of asset-based line of credit	-	(6,850)
Repurchase of shares	(15)	(164)
Settlement of contingent consideration	-	(352)
Cash received from exercise of stock options	122	-
Net cash used in financing activities	(1,162)	(9,829)
Effect of exchange rates changes on cash and cash equivalents	51	(251)
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(20,423)	15,502
Cash and equivalents, beginning	31,547	16,045
Cash and equivalents, ending	$ 11,124	$ 31,547
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 27,439	$ 20,670
Cash paid for income taxes	$ 3,911	$ 8,265

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

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

MRP Topco, Inc. (the "Company") was formed on February 27, 2018. The Company operates in three divisions: one providing enterprise recruitment process outsourcing, one providing placement services for the federal government, and the other provides placement services for information technology professionals on a permanent, full-time and temporary contract basis via a network of nationwide agencies. The Company and its wholly owned subsidiaries operate out of the United States, Canada, Ireland, Australia, and the United Kingdom.

MRP Recruiting Inc. was incorporated in Nova Scotia, Canada on November 5, 2012 as a wholly owned subsidiary to engage in providing enterprise recruitment processing outsourcing and placement services.

On September 11, 2014, Motion Recruitment Partners Inc. acquired 100% of the outstanding stock of Blue Glue Ltd, a recruiting company based in the United Kingdom. On April 25, 2016, Blue Glue Ltd was renamed to Motion Recruitment Partners Ltd (UK).

On February 12, 2015, Motion Recruitment Partners Inc. converted to Motion Recruitment Partners LLC, a single member Delaware Limited Liability Company.

On July 14, 2017, Motion Recruitment Partners Pty Ltd was incorporated in Australia as a wholly owned subsidiary to engage in providing enterprise recruitment processing outsourcing and placement services.

On December 7, 2018, Motion Recruitment Partners LLC acquired 100% of the membership interests of Management Decisions - MDI LLC ("MDI").

On February 26, 2021, Motion Recruitment Partners LLC acquired 100% of the membership interests of The Goal Group LLC ("The Goal").

On July 7, 2021, Motion Recruitment Partners Ltd (Ireland) was incorporated in Ireland as a wholly owned subsidiary to engage in providing enterprise recruitment processing outsourcing and placement services.

On December 23, 2021, Motion Recruitment Partners LLC acquired 100% of the membership interests of Matrix Resources LLC ("Matrix").

Fiscal Year

The Company and each of its subsidiaries operate on a calendar year ending December 31.

Principles of Consolidation

The Company's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements include the accounts of MRP Topco, Inc., and its wholly owned subsidiaries, MRP Acquisition Co. Inc., MRP Holdco, Inc., Motion Recruitment Partners LLC, MRP Recruiting Inc., Motion Recruitment Partners Pty Ltd., Motion Recruitment Partners Limited, The Goal, and Matrix. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, allowance for credit losses accounts, allowance for placement fall-offs, estimated useful lives of equipment, deferred tax valuation, accrual for medical self-insurance, share-based compensation assumptions, uncertainty of income taxes and various other accruals. Actual results could differ from those estimates.

Foreign Currency

The functional currency of most subsidiaries outside of the United States of America is deemed to be the currency of the local country. Accordingly, the assets and liabilities of those foreign subsidiaries are translated into the United States dollar using the period-end exchange rates, and income and expense items are translated using the average exchange rates during the period. Foreign currency translation gains and losses are reported separately as a component of accumulated other comprehensive (loss) income in members' equity (deficit). The functional currency of subsidiaries in the United States is the United States dollar. For the subsidiaries outside of the United States where the functional currency is not the currency of the local country, the functional currency is the United States dollar.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and investments having maturities of three months or less when purchased. Cash and cash equivalents are stated at carrying value, which approximates fair value on the reporting dates. As of December 31, 2023 and 2022, the Company's cash and cash equivalents consisted of only cash on hand.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe the banks pose a credit risk.

Concentrations of Credit Risk and Off-Balance-Sheet Risk

The Company has no significant off-balance-sheet risk, such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments that potentially expose the Company to concentrations of credit risk consist mainly of cash and cash equivalents. The Company maintains its cash and cash equivalents principally with accredited financial institutions of high-credit standing.

For the years ended December 31, 2023 and 2022, no customer represented more than 10% of the Company's total revenue, receivables or unbilled receivables.

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is calculated using the straight-line method. Estimated useful lives of assets range from three to five years. Leasehold improvements are amortized over the lesser of the term of the respective lease or the estimated useful lives of the improvements, typically five years.

(In thousands, except share data)

Cloud Computing Costs

In accordance with Accounting Standards Codification 350, *Intangibles, Goodwill and Other* ("ASC 350"), qualifying costs incurred for Cloud Computing Arrangements ("CCAs"), primarily for our enterprise resource planning system ("ERP"), are capitalized and presented net of accumulated amortization in the consolidated balance sheets. Once the ERP system is ready for its intended use, the capitalized costs are amortized over the estimated use life of the software or the CCA license period, whichever is shorter. The Company capitalizes both internal and external costs including interest. The following table summarizes activity during the periods presented which is primarily related to our Oracle Workday ERP solution which is being amortized over a 7-year period:

	2023	2022
Balance, beginning of year	$ 4,151	$ -
Capitalized	11,966	4,220
Amortized	(625)	(69)
Balance, end of year	$ 15,492	$ 4,151

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired related to third party business combinations. Our goodwill is associated with three reporting units and the Company evaluates goodwill for impairment at the reporting unit level. Our three reporting units are IT Staffing and Consulting, Federal IT Staffing, and Recruit Process Outsourcing and Managed Service Provider and the goodwill associated with each reporting unit as of December 31, 2023 and 2022 is as follows:

	2023	2022
IT Staffing and Consulting	$ 117,429	$ 117,429
Federal IT Staffing	29,605	29,605
Recruit Process Outsourcing and Managed Service Provider	1,650	1,650
Total	$ 148,684	$ 148,684

Our customer related intangible assets and tradenames are amortized over their estimated useful lives which are generally 15 and 10 years, respectively. Amortization expense is included in the operating expenses line item in the consolidated statements of income (loss).

Impairment of Long-Lived Assets

The Company assesses long-lived assets, including intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. Impairment exists if the estimate of future undiscounted cash flows generated by the assets is less than the carrying value of the assets. If impairment is determined to exist, any related impairment loss is then measured by comparing the fair value of the assets to their carrying amount. Goodwill is not amortized but is evaluated at least annually for impairment and was evaluated for impairment in the fourth quarter of 2023 and 2022. Based on our assessment no adjustments to the carrying value of goodwill on each of our three reporting units was considered necessary for years ended December 31, 2023 and 2022.

Derivative Financial Instruments

Derivative financial instruments are reported on the balance sheet at fair value. Fair value of derivatives is determined by reference to observable prices that are based on inputs not quoted on active markets but corroborated by market data, which constitutes a Level 2 measurement. The accounting for changes in the fair value of a derivative instrument depends on whether the derivative has been designated and qualifies as part of a hedging relationship for accounting purposes. The Company's use of derivative instruments has been limited to interest rate caps. The Company has not designated its interest rate caps as cash flow hedges, and the unrealized gains and losses are included in interest expense in the accompanying consolidated statements of income (loss). The valuation of the interest rate caps reflects the contractual terms of derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes between the following:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

At December 31, 2023 and 2022, the Company had Level 1 instruments, which included cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and as of December 31, 2023, had one Level 2 instrument which was its interest rate cap.

Revenue Recognition, Accounts Receivable and Unbilled Receivables

Revenue is recognized when the control of the promised goods or services are transferred to our customers in an amount that reflects the consideration that we expect to receive in exchange for these goods or services. To achieve this core principle, the Company applies the following five steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the performance obligation is satisfied

The Company enters into a master services agreement ("MSA") with most of its customers. The Company runs credit checks for new customers before approving the agreement the agreement to extend credit to existing customers and uses recent historical experience to determine whether collectability is probable. Most of the Company's contracts have a single performance obligation which represents the service being sold to the customer. Certain contracts in the Company's Managed Services Provider ("MSP") and Recruitment Process Outsourcing ("RPO") business contain more than one performance obligation. The Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract. Invoices are typically issued with 30-90 day payment terms.

The Company has identified six distinct revenue streams, as follows: Permanent Placement, Contracting, RPO, MSP, Professional Services and Telecom. The Company recognizes revenue at a point in time for Permanent Placement (upon start date of the placed employee) and over time for Contracting, RPO, Professional Services, Telecom and MSP services. Revenue for contracting, including Professional Services, is recognized over the period in which services are being provided and is billed weekly, biweekly or monthly. Revenue for RPO, MSP, and Telecom is recognized over the period in which services are being provided and is billed monthly. The Company has elected the "right to invoice" practical expedient available within ASC 606-10-55-18 as the measure of progress, because we have a right to payment from a customer in an amount that corresponds directly with the value of the performance completed to date. During the year ended December 31, 2023, the Company recognized $34,469 of Permanent Placement revenue at a point in time and $519,649 of Contracting, RPO, MSP, Professional Services and Telecom over time. During the year ended December 31, 2022, the Company recognized $77,835 of Permanent Placement revenue at a point in time and $567,753 of Contracting, RPO and MSP over time.

Permanent Placement fee revenues are recognized net of the appropriate allowance for placement fall-offs as the Company's placement contracts generally provide for a 30-day refundable guarantee and, in some instances, up to a 90-day refundable guarantee. The guarantee provides that the Company will either replace individuals who fail to continue employment for the time specified in the agreement or refund payments to the customer if the placed candidate ceases to be employed for any reason prior to the end of the specified period. The Company accounts for the variable consideration of placement fall-offs by estimating the amount to be refunded using the most likely amount method, determined based on historical losses for such fall-offs.

The Company recognizes revenue on a gross basis considering the criteria set forth in ASC Topic 606-10-55, *Principal versus Agent Considerations*, except for the Company's MSP contracts, in which the Company is an agent and therefore recognizes the related revenue on a net basis. Some of the Company's contracts with its Contracting and MSP customers include a volume rebate paid when a certain volume of annual sales is reached. This consideration payable to the customer is recognized as a reduction of revenue as the Company recognizes revenue for the transfer of services over time.

The Company has elected to use the following practical expedients:

- The Company's standard payment terms are less than one year. As such, no significant financing components exists within our contracts with our customers.

- The Company will use the portfolio approach for contracts with similar characteristics provided the accounting result will not be materially different from the result of applying the guidance at the individual contract level. The Company will use its judgment in the application of this approach to contracts and groups of similar contracts.

- The Company will expense all relevant incremental costs, such as selling and marketing costs, bid and proposal costs, sales commissions and legal fees to obtain a contract that has a duration of one year or less.

The Company has made the following accounting policy elections under ASC 606:

- Sales, use and value added taxes assessed by governmental authorities are excluded from the measurement of the transaction price in the Company's contracts with its customers.

Since adopting ASC Topic 606 there have been no assets recognized related to the costs to obtain or fulfill a contract.

The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited. An allowance for credit losses has been established based on a detailed review of the aged accounts receivable ledger. The factors influencing management's judgment of the adequacy of the allowance for credit losses include historical losses, knowledge of the customer's business and current economic conditions. Receivable balances are considered past due when payment is not consistent with contractual terms. The Company writes-off accounts receivable when all reasonable collection efforts are exhausted, and any payments subsequently received on such receivables are credited to the allowance for credit losses.

Unbilled receivables result from services provided to customers that have not yet been invoiced as of the reporting date. Such amounts are generally invoiced within 15 days of the end of the period in which services are provided.

As of December 31, 2023 and 2022, the allowance for placement fall-offs was $119 and $229, respectively, and the allowance for credit losses was $2,503 and $2,490, respectively.

Leases

The Company adopted ASU 2016-02, *Leases (Topic 842)* as of January 1, 2022. After the adoption of this standard, the Company determines if an arrangement contains a lease at inception based on whether there is an identified asset and whether the Company controls the use of the identified asset throughout the period of use. The Company classifies leases as either financing or operating and assess lease classification at lease commencement. Right-of-use ("ROU") assets are recognized at the lease commencement date and represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Present value of lease payments are discounted based on the

Company's incremental borrowing rate, which was calculated by an independent third party valuation specialist.. Expenses related to leases determined to be operating leases are recognized on a straight-line basis, while those determined to be finance leases are recognized following a front-loaded expense pattern in which interest and amortization are presented separately in the income statement.

The Company's ROU assets are initially measured based on the corresponding lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) lease incentives under the lease. Options to renew or terminate the lease are recognized as part of our ROU assets and lease liabilities when it is reasonably certain the options will be exercised. ROU assets are also assessed for impairment consistent with the long-lived asset guidance.

The Company does not allocate consideration between lease and non-lease components, such as operating costs, as the Company has elected to not separate lease and non-lease components for any leases within its existing classes of assets. Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for usage-based fees are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred.

Operating leases are presented separately as operating lease ROU assets and operating lease liabilities in the accompanying consolidated balance sheet.

Income Taxes

Income taxes are provided using an asset and liability approach to financial accounting and reporting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities on the consolidated financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities.

Uncertain Tax Positions

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has more than a 50% likelihood of being realized upon ultimate resolution. The Company will also recognize, if applicable, interest and penalties related to uncertain tax positions in income tax expense in the appropriate period.

The Company has reviewed its positions as of December 31, 2023 and 2022 and has concluded that no tax positions are uncertain and, therefore, no reserve for unrecognized tax liability is deemed necessary. No interest or penalties were incurred in the years ended December 31, 2023 or 2022.

The Company is not currently under examination by any taxing jurisdiction.

Advertising

Advertising costs are expensed in the year incurred. Advertising expenses were approximately $7,876 and $7,241 in 2023 and 2022, respectively, and are included in operating expenses on the consolidated statements of income (loss).

Share-Based Compensation

The Company accounts for stock-based compensation under the provisions of ASC 718-10, *Compensation-Stock Compensation* ("ASC 718-10"), which requires all share-based payments to employees, non-employees and directors, including grants of stock options, to be recognized in the consolidated statements of income (loss) and comprehensive income (loss) based on their fair values on the date of grant over the requisite service period, for service based awards, which is generally the vesting period of the respective award. Forfeitures are accounted for as they occur. Generally, the Company issues awards with both service-based and performance-based vesting conditions and records the expense for these awards using the ratable method over the service period. The Company classifies stock-based compensation expense in the same manner in which the award recipient's payroll or service provider's costs are classified. Share-based payments that contain performance conditions are recognized when such conditions are probable of being achieved.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which requires inputs based on certain subjective assumptions, including the following:

- Fair Value of Common Stock: The estimated fair value of common stock was determined by the Company's board of directors as of the date of each option grant, with input from management, considering third-party valuations of its common stock as well as the Company's board of directors' assessment of additional objective and subjective factors that it believed were relevant and which may have changed from the date of the most recent third-party valuation through the date of the grant. These objective and subjective factors include: (i) prices paid for the Company's preferred stock, and the rights, preferences, and privileges of the Company's preferred stock and common stock; (ii) the Company's stage of development; (iii) the fact that the grants of stock-based awards related to illiquid securities in a private company; and (iv) the likelihood of achieving a liquidity event for the common stock underlying the stock-based awards, such as an initial public offering or sale of the Company, given prevailing market conditions. These third-party valuations were performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants' Accounting and Valuation Guide, Valuation of Privately Held Company Equity Securities Issued as Compensation. Each valuation methodology includes estimates and assumptions that require the Company's judgment. The methodology utilized to estimate the fair value of the Company's common stock was the option-pricing method ("OPM") to back-solve the estimated value of the Company's equity and corresponding value of the Company's common stock.

- Expected Term: The expected term represents the period over which stock-based awards are expected to be outstanding. The Company uses the simplified method to determine the expected term, which is based on the average of the time-to-vesting and the contractual life of the options.

- Expected Volatility: The expected volatility was estimated based on the average volatility for comparable publicly traded peer companies over a period equal to the expected term of the stock option grants. The comparable companies were chosen based on the similar size, stage in life cycle or area of specialty.

- Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of the awards.

- Dividend Yield: The Company has no plans to pay dividends on its common stock. Therefore, the Company used an expected dividend yield of zero.

Deferred Financing Costs

Costs incurred in connection with obtaining financing are capitalized and recorded as a reduction in the carrying amount of debt. These costs are amortized over the term of the related loans. Amortization is recorded as a component of interest expense in the accompanying consolidated statements of income (loss).

Commitments and Contingencies

The Company recognizes a liability with regard to loss contingencies when it believes it is probable a liability has been incurred and the amount can be reasonably estimated. If an amount within a range of loss appears, at the time, to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount the Company accrues the minimum amount in the range.

Recently Adopted Accounting Pronouncements

From time to time, new accounting pronouncements are issued and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial statements upon adoption.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, as amended, with guidance regarding the accounting for and disclosure of leases. The update requires lessees to recognize the rights and obligations related to all leases, including operating leases, with a term greater than 12 months on the balance sheet. This update also requires lessees and lessors to disclose key information about their leasing transactions. Topic 842 become effective for the Company and the Company adopted Topic 842 beginning on January 1, 2022. The Company recorded a right-of-use asset of $22,773, a lease liability of $24,387 and a reduction of the previously recorded deferred rent liability and accrued rent of $1,614 as result of adopting Topic 842.

ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which requires entities to use a new impairment model based on Current Expected Credit Losses ("CECL") rather than incurred losses. This ASU has been modified and clarified with ASU 2018-19, 2019-04, and 2019-05 and implementation was delayed with the issuance of ASU 2019-10 to financial periods beginning after December 15, 2022 for private entities. The Company adopted ASU 2016-13, as amended on January 1, 2023, using the modified retrospective transition method which did not have a material impact on our consolidated financial statements.

(In thousands, except share data)

NOTE 2 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following on December 31:

	2023	2022
Computer equipment	$ 8,928	$ 6,709
Furniture and fixtures	3,029	2,730
Leasehold improvements	2,827	2,411
	14,784	11,850
Accumulated depreciation	(10,837)	(8,505)
Property and equipment, net	$ 3,947	$ 3,345

Total depreciation expense for 2023 and 2022 was $2,332 and $2,178, respectively.

NOTE 3 - INTANGIBLE ASSETS

The Company's intangible assets and related useful lives are as follows:

	Weighted Average Amortization Period (Years)	2023	2022
Amortizing intangible assets			
Customer relationships	15	$ 9,400	$ 9,400
Tradename - The Goal	10	4,500	4,500
Total		13,900	13,900
Less: accumulated amortization			
Customer relationships		(3,173)	(2,546)
Tradename - The Goal		(1,275)	(825)
Total		(4,448)	(3,371)
Intangible assets, net		$ 9,452	$ 10,529

Aggregate amortization expense for amortizing intangible assets was $1,077 and $1,077 for the years ended December 31, 2023 and 2022, respectively.

(In thousands, except share data)

Estimated future amortization expense of intangible assets recorded as of December 31, 2023 is as follows:

Years Ending December 31,		
2024	$	1,077
2025		1,077
2026		1,077
2027		1,077
2028		1,077
Thereafter		4,067
Total	$	9,452

NOTE 4 - LEASES

The Company has office spaces that are accounted for as operating leases. Certain of these operating leases have renewal options, escalating payments terms and lease payments that are variable in nature. Renewal options are included in the calculation of the Company's ROU assets and corresponding lease liabilities if such renewal options are probable of being exercised.

Upon adoption, ASC 842, *Leases,* had an impact in the Company's consolidated balance sheet and in its consolidated statements of income (loss). As part of the transition, the Company elected the following practical expedients:

- The package of practical expedients which eliminates the need to reassess (1) whether any expired or existing contracts are or contain leases; (2) the lease classification for any expired or existing leases; and (3) the initial direct costs for any existing leases.

- The practical expedient whereby the lease and non-lease components will not be separated for all classes of assets.

- Not to recognize ROU assets and corresponding lease liabilities with a lease term of 12 months or less from the lease commencement date.

For existing leases, the Company did not elect the use of hindsight and did not reassess lease term upon adoption.

The Company adjusted the opening balance operating lease ROU assets balance based on its remaining deferred rent liabilities immediately prior to adoption. On January 1, 2022, the Company recorded $22,773 in operating lease ROU assets and $24,387 in operating lease liabilities. The Company does not have any finance leases. The adoption of ASC 842 had no significant impact on the Company's net income or cash flows.

(In thousands, except share data)

The components of net operating lease cost for the years ended December 31, 2023 and 2022 were:

	2023	2022
Operating lease cost - fixed	$ 5,825	$ 6,706
Operating lease cost - variable	610	289
Short-term lease cost	57	71
Sublease income	(339)	(353)
Total	$ 6,153	$ 6,713

The net operating lease costs are reflected on the consolidated statements of income (loss) in Operating expenses.

Supplemental cash flow information related to leases was as follows during 2023 and 2022:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 6,094	$ 6,970
Supplemental disclosure of noncash leasing activities:		
ROU assets obtained in exchange for new operating lease liabilities	$ -	$ 2,121

The following table represents the weighted-average remaining lease term and discount rate as of December 31, 2023 and 2022:

	2023	2022
Weighted-average remaining lease term (years)	4.76	4.80
Weighted-average discount rate	8.30%	8.14%

(In thousands, except share data)

Future undiscounted lease payments for the Company's operating lease liabilities are as follows as of December 31, 2023:

Years Ending December 31,		
2024	$	5,161
2025		4,086
2026		2,948
2027		1,576
2028		1,287
Thereafter		2,732
Total		17,790
Imputed interest		(3,141)
Total lease liability	$	14,649

NOTE 5 - ACCRUED EXPENSES

Accrued expenses consist of the following at December 31, 2023 and 2022:

		2023		2022
Employee compensation	$	13,434	$	26,353
Other		2,100		9,722
Accrued expenses	$	15,534	$	36,075

NOTE 6 - BANK DEBT AND LINE OF CREDIT

Long-Term Debt

On December 20, 2019, the Company entered into a new six-year term loan agreement ("Term Loan") with an initial principal balance of $127,100. On January 16, 2020, the Company modified its revolving line of credit, resulting in a reduction of the future interest rates.

On September 30, 2020, a waiver and additional amendment to the Term Loan was executed modifying certain requirements and increasing the commitment fee to 1% per annum through September 30, 2021.

The Term Loan is a Eurodollar loan. The loan bears interest at a rate per annum equal to the Eurodollar Rate determined for such day plus 6.5% to 6.75% in 2023 and 5.75% and 6.75 in 2022 depending on the Company's total leverage ratio, as defined. The interest rate as of December 31, 2023, was 12.14% and as of December 31, 2022 it was 10.05%.

A third amendment to the credit agreement was made as of February 26, 2021 where the borrower requested the lenders to fund Delayed Draw Term loans in an aggregate principal amount equal to $7,500 in connection with the acquisition of The Goal.

(In thousands, except share data)

A fourth amendment to the credit agreement was executed on December 23, 2021 in conjunction with the acquisition of Matrix for an additional term loan principal of $108,000.

The Term Loan, as amended, requires the Company to meet a total leverage ratio and establishes certain limitations on other indebtedness.

A total of $3,933 of debt issuance costs were incurred and capitalized in connection with both amendments. As of December 31, 2023, the Company was in compliance with all covenants.

During the year ended December 31, 2023, the Company made quarterly principal payments of $606 for the quarters ended March 31, 2023 and June 30, 2023. As required under the term loan agreement, on a quarterly basis, the Company determines if it is required to make an excess cash flow payment, as defined. In August 2023, the Company was required to make an additional principal payment of $5,741 as a result of the excess cash flow payment calculation for quarter ended June 30, 2023. The additional principal payment exceeded all of the future minimum quarterly payments that are required under the term loan agreement. As such, the remaining balance of the term loan has been classified as long term debt as of December 31, 2023. The Company will continue to perform the required calculations to determine if future excess cash flow payments are required.

Long-term debt consisted of the following at December 31, 2023 and 2022:

	2023	2022
Term loan	$ 230,603	$ 237,557
Less: current maturities	-	(2,426)
Less: unamortized bank fees	(3,427)	(5,124)
Long-term debt, net of current portion	$ 227,176	$ 230,007

The remaining payments are as follows:

2024	$ -
2025	230,603
Total	$ 230,603

Asset-Based Line of Credit

In connection with the December 20, 2019 Term Loan transaction, the Company entered into a new asset based revolving line of credit ("LOC") for up to $20,000 to fund working capital requirements and business operating expenses. As of December 31, 2023, the Company had $6,000 outstanding under this facility.

NOTE 7 - INTEREST RATE CAP

Interest rate cap agreements are used to manage interest rate risk associated with floating-rate borrowings under its Term Loan (Note 6). The interest rate cap ("Cap") agreement utilized by the Company effectively modifies the Company's exposure to interest rate risk by converting a portion of the Company's floating-rate debt to a fixed rate basis through the expiration date of the interest rate cap agreement, thereby reducing the impact of interest rate changes on future interest expense.

(In thousands, except share data)

On September 30, 2023, the Company purchased a Cap for a total of $315. The Cap has a strike rate of 5.75% and a maturity date of September 30, 2025. The fair value of the Cap at December 31, 2023 was $49, which was determined by using observable inputs other than quoted market prices, a Level 2 measurement under ASC 820. The notional amount of the debt subject to the interest rate cap at December 31, 2023 was $150,000. During the year ended December 31, 2023 the decrease in fair value of the Cap was $266 which was charged to interest expense in the consolidated statements of income (loss).

NOTE 8 - INCOME TAXES

The domestic and foreign components of total income before income tax expense consist of the following for the years ended December 31, 2023 and 2022:

	2023	2022
United States	$ 1,122	$ 30,213
Foreign	1,221	2,573
Income before income tax expense	$ 2,343	$ 32,786

Income tax expense consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Current		
Federal	$ 2,172	$ 5,457
State	752	1,772
Foreign	260	566
	3,184	7,795
Deferred		
Federal	6,792	1,558
State	(922)	434
Foreign	(72)	52
	5,798	2,044
Income tax expense	$ 8,982	$ 9,839

(In thousands, except share data)

A reconciliation of the Company's effective tax rate to the statutory federal income tax rate is as follows at December 31, 2023 and 2022:

	2023	2022
Federal income tax expense at statutory rate	21.00%	21.00%
State income tax benefit	(2.25)	6.30
Permanent items	9.03	0.04
Foreign tax credits	(3.75)	-
Rate changes	6.27	0.06
Valuation allowance	354.76	-
Other	(1.68)	2.62
Effective income tax rate	383.38%	30.02%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The income tax effects of significant items comprising the Company's net deferred tax asset are as follows at December 31, 2023 and 2022:

	2023	2022
Deferred tax assets		
Interest expense limitation	$ 8,432	$ 2,860
Allowance for credit losses and placement fall-offs	635	704
Vacation accrual	366	412
Share-based compensation	1,081	936
Capitalized transactions costs	662	688
Net operating losses	263	127
Accruals	610	1,301
Lease liabilities	3,778	5,115
Other	184	7
Total gross deferred tax assets	16,011	12,150
Deferred tax asset valuation allowance	(8,394)	(83)
Total net deferred tax assets	7,617	12,067
Deferred tax liabilities		
Unremitted earnings of foreign subsidiaries	(157)	(157)
Prepaid expenses	(968)	(760)
Intangible assets	(5,517)	(3,265)
Right-of-use assets	(3,482)	(4,741)
Depreciation and amortization	(823)	(772)
Deferred tax liability	(10,947)	(9,695)
Net deferred tax (liability) asset	$ (3,330)	$ 2,372

(In thousands, except share data)

As of December 31, 2023 and 2022, the Company had foreign net operating loss ("NOL") carryforwards of approximately $236 and $506, respectively, of which may be available to offset future income tax liabilities indefinitely. At December 31, 2023 and 2022, the Company had state NOLS of $2,788 and $0 respectively of which may be available to offset future income tax liabilities through 2043. There were no federal NOLs as of December 31, 2023 or 2022.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the years ended December 31, 2023 and 2022, the Company recorded an increase of $8,311 and $12, respectively, to the Valuation Allowance. The Company considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for Deferred Tax Assets was needed. The Company reached the conclusion it was appropriate to record a valuation allowance against part of its U.S. deferred tax assets and certain foreign deferred tax assets relying on evidence shown by reversing taxable temporary differences, as well as expectations of future taxable income with the appropriate tax character.

The Company files a federal consolidated income tax return for which the statute of limitations remains open for the 2020 tax year and subsequent years. U.S. state jurisdictions have state of limitations generally ranging from 3 to 6 years. The Company files in foreign jurisdictions for which the statute of limitations remain open for years of 2019 - 2022.

NOTE 9 - COMMON STOCK

The Board of Directors have authorized two classes of capital stock. Both classes of capital stock are entitled to receive dividends and have identical rights in the case of liquidation, dissolution, or winding up of the Company. Both classes of capital stock may be issued in fractional shares.

Information regarding the two classes of capital stock as of December 31, 2023 is as follows:

	Common Stock	Non-voting Common Stock	Total
	(In shares, unless otherwise stated)		
Authorized	80,000	30,000	110,000
Issued	65,469	-	65,469
Outstanding	65,469	-	65,469
Par value	$0.001	$0.001	-

NOTE 10 - SHARE-BASED COMPENSATION

Shared based compensation relates to stock option awards granted to the Company's key employees and directors in shares of MRP Topco. The total number of shares currently authorized under the plan is 7,267 shares, of which 361 remain available for grant as of December 31, 2023.

Eighty percent of the options granted are service-based awards and twenty percent are performance-based awards. The service-based awards vest over a four-year period and the performance-based awards vest upon a liquidity event in which the majority investor sells a majority of its shares.

During the years ended December 31, 2023 and 2022, the Company recorded total share-based compensation expense of $645 and $808, respectively. At December 31, 2023, the total unrecognized compensation cost related to the non-vested options was $1,315 for performance-based options and $1,274 for the service-based options.

(In thousands, except share data)

Information with regard to the option grants is as follows:

	2023	2022
Options outstanding at beginning of the year	6,353	5,203
Shares granted	120	1,342
Cancelled or forfeited	(323)	(142)
Exercised	(72)	(50)
Options outstanding at year end	6,078	6,353
Options vested and expected to vest at year end	4,862	5,082
Options vested and exercisable at year end	3,935	3,579

The weighted-average assumptions for valuing the awards granted in 2023 were as follows:

	2023 Service Vesting
Expected volatility	37.67%
Dividend yield	N/A
Risk-free interest rate	3.67%
Expected option life (years)	6.25
Weighted average fair value per option granted	1,927

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company maintains its own 401(k) savings plan covering substantially all employees who have at least one year of service. Under the terms of the 401(k) plan, the Company may make a discretionary contribution equal to a percentage of the amounts contributed by the participants. For 2023 and 2022, the Company did not make any matching contributions.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company is a party to legal actions that management considers to be incidental to its business, and the outcome of which will not have a material impact on the consolidated financial statements.

NOTE 13 - RELATED-PARTY TRANSACTIONS

Under the terms of the agreement, the Company paid a related party fee for various management services totaling $313 in 2023 and $402 in 2022.

NOTE 14 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of the consolidated financial statements on July 1, 2024.

On May 2, 2024, Kelly Services, Inc. ("Kelly"), MRP Merger Sub, Inc. ("Merger Sub"), a newly-formed, wholly-owned subsidiary of Kelly, the Company and Littlejohn Fund V, L.P. ("Littlejohn"), in its capacity as the securityholders' representative, entered into an Agreement and Plan of Merger (the "Merger Agreement") whereby Kelly would indirectly acquire 100% of the equity interests in the Company by way of a merger of Merger Sub with and into the Company, with the Company surviving the merger (the "Merger"). Littlejohn is the majority owner of the Company.

On May 31, 2024 the merger was completed for a cash purchase price of $425 million. In addition, further cash consideration of up to $60 million may be due in the second quarter of 2025 if certain conditions are satisfied during an earn-out period ending on March 31, 2025.

Condensed Consolidated Financial Statements

MRP Topco, Inc.

March 31, 2024 and 2023

Contents

MRP TOPCO, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2024 AND DECEMBER 31, 2023
UNAUDITED
(In thousands, except per share amounts)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,886	$ 11,124
Accounts receivable, net of allowance for placement fall-offs and credit losses of $2,392 and $2,622 as of March 31, 2024 and December 31, 2023, respectively	69,137	69,412
Unbilled receivables	21,791	18,905
Prepaid expenses and other current assets	3,739	4,241
Prepaid income taxes	1,612	1,437
Cloud computing costs	2,147	2,324
Total current assets	106,312	107,443
Property and equipment, net	3,848	3,947
Security deposits	1,081	1,334
Right-of-use assets, net	12,528	13,502
Goodwill	148,684	148,684
Deferred tax asset, net	—	—
Interest rate cap	49	49
Intangible assets, net	9,183	9,452
Cloud computing costs, net of current portion	12,585	13,168
Total assets	$ 294,270	$ 297,579
LIABILITIES AND MEMBERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable	$ 18,593	$ 14,664
Accrued expenses	15,168	15,534
Lease liabilities, current portion	4,026	4,137
Deferred tax liability, net	3,330	3,330
Asset-based line of credit	3,000	6,000
Total current liabilities	44,117	43,665
Long-term debt	227,600	227,176
Lease liabilities, net of current portion	9,576	10,512
Total liabilities	281,293	281,353
Shareholders' equity (deficiency)		
Common stock, $0.001 par value per share, 110,000 shares authorized; 65,469 shares issued and outstanding as of March 31, 2024 and December 31, 2023	—	—
Additional paid-in capital	153,592	153,418
Accumulated deficit	(140,466)	(137,068)
Accumulated other comprehensive loss	(149)	(124)
Total shareholders' equity (deficiency)	12,977	16,226
Total liabilities and shareholders' equity (deficiency)	$ 294,270	$ 297,579

MRP TOPCO, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

THREE MONTHS ENDED MARCH 31, 2024 AND 2023

UNAUDITED

(In thousands)

	Three Months Ended	
	March 31, 2024	**March 31, 2023**
Net revenues	$ 130,518	$ 144,054
Cost of services	113,775	123,016
Gross profit	16,743	21,038
Operating expenses	12,073	13,124
Merger and acquisition expenses	—	19
Share-based compensation expense	174	172
Related party management fees	80	59
Income from operations	4,416	7,664
Other income (expense)		
Interest expense and amortization of debt issuance costs	(7,894)	(7,034)
Interest income	46	129
(Loss) gain on foreign exchange	(8)	34
(Loss) Income before income tax (benefit) expense	(3,440)	793
Income tax (benefit) expense	(42)	192
NET (LOSS) INCOME	$ (3,398)	$ 601

MRP TOPCO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
UNAUDITED
(In thousands)

	Three Months Ended	
	March 31, 2024	**March 31, 2023**
Net (loss) income	$ (3,398)	$ 601
Other comprehensive loss		
Translation loss on net assets and operations of foreign subsidiary	(25)	(47)
COMPREHENSIVE (LOSS) INCOME	$ (3,423)	$ 554

MRP TOPCO, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

THREE MONTHS ENDED MARCH 31, 2024 AND 2023

UNAUDITED

(In thousands, except shares)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficiency)
Shareholders' equity (deficiency) at December 31, 2022	$ 65,401	$ —	$ 152,666	$ (130,429)	$ (175)	$ 22,062
Repurchase of shares	—	—	(15)	—	—	(15)
Share-based compensation	—	—	172	—	—	172
Other comprehensive loss	—	—	—	—	(47)	(47)
Net income	—	—	—	601	—	601
Shareholders' equity (deficiency) at March 31, 2023	$ 65,401	$ —	$ 152,823	$ (129,828)	$ (222)	$ 22,773

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficiency)
Shareholders' equity (deficiency) at December 31, 2023	$ 65,469	$ —	$ 153,418	$ (137,068)	$ (124)	$ 16,226
Share-based compensation	—	—	174	—	—	174
Other comprehensive loss	—	—	—	—	(25)	(25)
Net loss	—	—	—	(3,398)	—	(3,398)
Shareholders' equity (deficiency) at March 31, 2024	$ 65,469	$ —	$ 153,592	$ (140,466)	$ (149)	$ 12,977

MRP TOPCO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
UNAUDITED
(In thousands)

	Three Months Ended	
	March 31, 2024	**March 31, 2023**
Cash flow from operating activities:		
Net (loss) income	$ (3,398)	$ 601
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	938	790
Amortization of debt issuance costs	424	424
Amortization of right-of-use assets	974	1,144
Amortization of capitalized software costs	583	32
Write off of capitalized software costs	39	—
Stock compensation expense	174	172
Provision for fall-off and credit losses	—	716
Changes in operating assets and liabilities:		
Accounts receivable	275	2,198
Unbilled receivable	(2,886)	(972)
Prepaid expenses and other current assets	527	(3,742)
Prepaid income taxes	(200)	(582)
Deferred income taxes	—	(105)
Security deposits	253	200
Cloud computing costs	138	(1,826)
Accounts payable	3,929	(582)
Accrued expenses and other long term liabilities	(366)	(10,317)
Operating lease liability	(1,047)	(1,215)
Net cash provided by (used in) operating activities	357	(13,064)
Cash flows from investing activities:		
Purchase of property and equipment	(570)	(971)
		—
Net cash used in investing activities	(570)	(971)
Cash flows from financing activities:		
Repayments of long-term debt	—	(606)
Proceeds from asset-based line of credit	20,000	—
Repayments of asset-based line of credit	(23,000)	—
Repurchase of shares	—	(15)
Net cash used in financing activities	(3,000)	(621)
Effect of exchange rates changes on cash and cash equivalents	(25)	(47)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,238)	(14,703)
Cash and cash equivalents, beginning	11,124	31,547
Cash and Cash equivalents, ending	$ 7,886	$ 16,844
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,528	$ 6,580
Cash paid for income taxes	$ 117	$ 1,329

NOTE 1 - BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

The Company’s condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The accompanying condensed consolidated financial statements include the accounts of MRP Topco, Inc., and its wholly owned subsidiaries, MRP Acquisition Co. Inc., MRP Holdco, Inc., Motion Recruitment Partners LLC, MRP Recruiting Inc., Motion Recruitment Partners Pty Ltd., Motion Recruitment Partners Limited, The Goal, and Matrix. All significant intercompany transactions have been eliminated in consolidation. The Marcy 31, 2024 Unaudited Condensed Consolidated Balance Sheet data was derived from the audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). This Quarterly Report should be read in connection with our Annual Report for the year ended December 31, 2023, which includes all disclosures required by GAAP. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect, in our opinion, all the adjustments of a normal, recurring nature that are necessary for the fair statement of the Company's financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results expected for the full year or any other period.

Recently Adopted Accounting Pronouncements

From time to time, new accounting pronouncements are issued and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company’s financial statements upon adoption.

ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which requires entities to use a new impairment model based on Current Expected Credit Losses (“CECL”) rather than incurred losses. This ASU has been modified and clarified with ASU 2018-19, 2019-04, and 2019-05 and implementation was delayed with the issuance of ASU 2019-10 to financial periods beginning after December 15, 2022 for private entities. The Company adopted ASU 2018-19 on January 1, 2023, which did not have a material impact on our consolidated financial statements.

(In thousands, except share data)

NOTE 2 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of March 31, 2024 and December 31, 2023:

	2024	2023
Computer equipment	$ 9,326	$ 8,928
Furniture and fixtures	3,063	3,029
Leasehold improvements	2,965	2,827
	15,354	14,784
Accumulated depreciation	(11,506)	(10,837)
Property and equipment, net	$ 3,848	$ 3,947

Total depreciation expense for the three months ended March 31, 2024 and 2023 was $669 and $520, respectively.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Our goodwill is associated with three reporting units and the Company evaluates goodwill for impairment at the reporting unit level. Our three reporting units are IT Staffing and Consulting, Federal IT Staffing, and Recruit Process Outsourcing and Managed Service Provider and the goodwill associated with each reporting unit as of March 31, 2024 and December 31, 2023 is as follows:

	2024	2023
IT Staffing and Consulting	$ 117,429	$ 117,429
Federal IT Staffing	29,605	29,605
Recruit Process Outsourcing and Managed Service Provider	1,650	1,650
Total	$ 148,684	$ 148,684

For the three months ended March 31, 2024 and year ended December 31, 2023, no goodwill impairment triggering events have been noted.

(In thousands, except share data)

Intangible Assets

The Company's intangible assets as of March 31, 2024 and December 31, 2023 are as follows:

	2024	2023
Amortizing intangible assets		
Customer relationships	$ 9,400	$ 9,400
Tradename - The Goal	4,500	4,500
Total	13,900	13,900
Less: accumulated amortization		
Customer relationships	(3,329)	(3,173)
Tradename - The Goal	(1,388)	(1,275)
Total	(4,717)	(4,448)
Intangible assets, net	$ 9,183	$ 9,452

Aggregate amortization expense for intangible assets was $269 and $269 for the three months ended March 31, 2024 and 2023, respectively.

Estimated future amortization expense of intangible assets recorded as of March 31, 2024 is as follows:

Period Ending March 31, 2024	
2024	$ 808
2025	1,077
2026	1,077
2027	1,077
2028	1,077
Thereafter	4,067
Total	$ 9,183

(In thousands, except share data)

NOTE 4 - ACCRUED EXPENSES

Accrued expenses consist of the following at March 31, 2024 and December 31, 2023:

	2024	2023
Employee compensation	$ 8,689	$ 13,434
Other	6,545	2,100
Accrued expenses	$ 15,234	$ 15,534

NOTE 5 - BANK DEBT AND LINE OF CREDIT

Long-Term Debt

On December 20, 2019, the Company entered into a new six-year term loan agreement (Term Loan) with an initial principal balance of $127,100.

On September 30, 2020, a waiver and additional amendment to the Term Loan was executed modifying certain requirements and increasing the commitment fee to 1% per annum through September 30, 2021.

The Term Loan is a Eurodollar loan. The loan bears interest at a rate per annum equal to the Eurodollar Rate determined for such day plus 6.75% in 2024 and 6.50% to 6.75% in 2023 depending on the Company's total leverage ratio, as defined. The interest rate as of March 31, 2024 was 12.06% and at December 31, 2023, was 12.14%.

A third amendment to the credit agreement was made as of February 26, 2021 where the borrower requested the lenders to fund Delayed Draw Term loans in an aggregate principal amount equal to $7,500 in connection with the acquisition of The Goal.

A fourth amendment to the credit agreement was executed on December 23, 2021 in conjunction with the acquisition of Matrix for an additional term loan principal of $108,000.

The Term Loan, as amended, requires the Company to meet a total leverage ratio and establishes certain limitations on other indebtedness.

A total of $3,933 of debt issuance costs were incurred and capitalized in connection with both amendments. As of March 31, 2024 and December 31, 2023, the Company was in compliance with all covenants.

During the year ended December 31, 2023, the Company made quarterly principal payments of $606 for the quarters ended March 31, 2023 and June 30, 2023. As required under the term loan agreement, on a quarterly basis, the Company determines if it is required to make an excess cash flow payment, as defined. In August 2023, the Company was required to make an additional principal payment of $5,741 as a result of the excess cash flow payment calculation for quarter ended June 30, 2023. The additional principal payment exceeded all of the future minimum quarterly payments that are required under the term loan agreement. As such, the remaining balance of the term loan has been classified as long-term debt as of December 31, 2023. The Company will continue to perform the required calculations to determine if future excess cash flow payments are required.

(In thousands, except share data)

Long-term debt consisted of the following at March 31, 2024 and December 31 2023:

	2024	2023
Term loan	$ 230,603	$ 230,603
Less: current maturities	—	—
Less: unamortized bank fees	(3,003)	(3,427)
Long-term debt, net of current portion	$ 227,600	$ 227,176

The remaining payments are as follows:

2024	$ —
2025	230,603
Total	$ 230,603

Asset-Based Line of Credit

In connection with the December 20, 2019 Term Loan transaction, the Company entered into a new asset based revolving line of credit (LOC) for up to $20,000 to fund working capital requirements and business operating expenses. As of March 31, 2024 and December 31, 2023, the Company had $3,000 and $6,000 outstanding under this facility, respectively.

NOTE 6 – INTEREST RATE CAP

Interest rate cap agreements are used to manage interest rate risk associated with floating-rate borrowings under its Term Loan (Note 5). The interest rate cap (“Cap”) agreement utilized by the Company effectively modifies the Company’s exposure to interest rate risk by converting a portion of the Company’s floating-rate debt to a fixed rate basis through the expiration date of the interest rate cap agreement, thereby reducing the impact of interest rate changes on future interest expense.

On September 30, 2023, the Company purchased a Cap for a total of $315. The Cap has a strike rate of 5.75% and a maturity date of September 30, 2025. The fair value of the Cap at March 31, 2024 and December 31, 2023 was $49, which was determined by using observable inputs other than quoted market prices, a Level 2 measurement under ASC 820. The notional amount of the debt subject to the interest rate cap at March 31, 2024 and December 31, 2023 was $150,000.

NOTE 7 - INCOME TAXES

Income tax (benefit) expense for the three months ended March 31, 2024 and 2023 was $(42) and $192 respectively.

Uncertain Tax Positions

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has more than a 50% likelihood of being realized upon ultimate resolution. The Company will also recognize, if applicable, interest and penalties related to uncertain tax positions in income tax expense in the appropriate period.

The Company has reviewed its positions as of March 31, 2024 and December 31, 2023 and has concluded that no tax positions are uncertain and, therefore, no reserve for unrecognized tax liability is deemed necessary. No interest or penalties were incurred in the three months ended March 31, 2024 and the year ended December 31, 2023.

The Company is not currently under examination by any taxing jurisdiction.

NOTE 8 – FAIR VALUE

ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company’s own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes between the following:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

At March 31, 2024 and December 31, 2023, the Company had Level 1 instruments, which included cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and one Level 2 instrument which was its interest rate cap.

NOTE 9 – REVENUES

The Company has identified six distinct revenue streams, as follows: Permanent placement, Contracting, RPO, MSP, Professional Services and Telecom. The Company recognizes revenue at a point in time for Permanent placement (upon start date of the placed employee) and over time for Contracting, RPO, Professional Services, Telecom and MSP services.

During the three months ended March 31, 2024 and 2023, the Company recognized $6,736 and $11,125, respectively, of Permanent placement revenue of at a point in time. During the three months ended March 31, 2024 and 2023, the Company recognized $123,782 and $132,929, respectively, of Contracting, RPO, MSP, Professional Services and Telecom over time.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company is a party to legal actions that management considers to be incidental to its business, and the outcome of which will not have a material impact on the consolidated financial statements.

NOTE 11 - RELATED-PARTY TRANSACTIONS

Under the terms of the agreement, the Company paid a related party fee for various management services totaling $80 and $59 for the three months ended March 31, 2024 and 2023, respectively.

NOTE 12 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of the consolidated financial statements on July 1, 2024.

On May 2, 2024, Kelly Services, Inc. ("Kelly"), MRP Merger Sub, Inc. ("Merger Sub"), a newly-formed, wholly-owned subsidiary of Kelly, the Company and Littlejohn Fund V, L.P. ("Littlejohn"), in its capacity as the securityholders' representative, entered into an Agreement and Plan of Merger (the "Merger Agreement") whereby Kelly would indirectly acquire 100% of the equity interests in the Company by way of a merger of Merger Sub with and into the Company, with the Company surviving the merger (the "Merger"). Littlejohn is the majority owner of the Company.

On May 31, 2024 the merger was completed for a cash purchase price of $425 million. In addition, further cash consideration of up to $60 million may be due in the second quarter of 2025 if certain conditions are satisfied during an earn-out period ending on March 31, 2025.

Unaudited Pro Forma Condensed Combined Financial Information

Introduction

On June 3, 2024, Kelly Services, Inc. ("Kelly" or “Buyer” or “Client” or the "Company"), filed with the U.S. Securities and Exchange Commission (“SEC”) a Current Report on Form 8-K (the “Initial Report”) to announce the completion of the acquisition of Motion Recruitment Partners, LLC ("MRP") by way of a merger with MRP Merger Sub, Inc. ("Merger Sub"), a newly-formed, wholly owned subsidiary of the Company, with and into MRP Topco ("Topco"), the indirect parent company of MRP and Littlejohn Fund V, L.P. (the “Seller” or "Littlejohn"), with Topco surviving the merger (the "Merger").

Under terms of the merger agreement, the $425.0 million purchase price was adjusted for estimated cash held by MRP at the closing date and estimated working capital adjustments, resulting in the Company paying cash of $440.0 million. Total consideration includes $3.4 million of contingent consideration related to an earnout payment with a maximum potential cash payment of $60.0 million in the event certain financial metrics are met per the terms of the agreement. The earnout payment is based on a multiple of gross profit in excess of an agreed-upon amount during the earnout period, defined as the 12 months ending March 31, 2025, and any necessary payment is due to the Seller in the second quarter of 2025. The initial fair value of the earnout was established using a Monte Carlo simulation model.

Kelly and MRP are providing the following unaudited pro forma condensed combined financial statements (“Pro Forma Financial Statements”) to aid in the analysis of the financial aspects of the business combination described below. The Pro Forma Financial Statements have been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses” and should be read in conjunction with the accompanying notes. The Pro Forma Financial Statements are based on Kelly’s and MRP’s historical financial information as adjusted to give effect to the business combination described above and the related financing as if the transactions had been completed on March 31, 2024, with respect to the unaudited pro forma condensed combined balance sheet, and as of January 2, 2023, with respect to the unaudited pro forma condensed combined statement of earnings for the fiscal year ended December 31, 2023 and the unaudited pro forma condensed combined statement of earnings for the three months ended March 31, 2024.

The Pro Forma Financial Statements are derived from, and should be read in conjunction with i) Kelly’s quarterly report on Form 10-Q for the period ended March 31, 2024, filed on May 9, 2024, ii) Kelly’s annual report on Form 10-K for the fiscal year ended December 31, 2023 filed on February 20, 2024, iii) the historical unaudited condensed financial statements of MRP as of and for the three months ended March 31, 2024 included elsewhere within this amended Form 8-K, and iv) the historical audited consolidated financial statements of MRP as of and for the year ended December 31, 2023 included elsewhere within this amended Form 8-K.

The foregoing historical financial statements have been prepared in accordance with U.S. GAAP. The Pro Forma Financial Statements have been prepared based on the aforementioned historical financial statements and the assumptions and adjustments as described in the notes to the Pro Forma Financial Statements.

The Pro Forma Financial Statements have been prepared in accordance with Regulation S-X Article 11 and reflect preliminary estimates of the transaction accounting adjustments to the business combination referred to above and do not reflect the costs of any integration activities or benefits that may result from realization of future revenue growth or operational synergies expected to result from the business combination. The Pro Forma Financial Statements are presented for illustrative purposes only and do not purport to represent Kelly’s combined statement of earnings or combined balance sheet that would actually have occurred had the transactions referred to above been consummated on the dates assumed, or to project Kelly’s combined statement of earnings or combined balance sheet for any future date or period. Unless otherwise noted, the Pro Forma Financial Statements and adjustments are presented in millions.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 31, 2024
(In millions of dollars)

	Historical						
	Kelly Services, Inc.	MRP Topco, Inc. (See Note 4)	Debt Financing Transaction Adjustments	Note 5	Transaction Accounting Adjustments	Note 5	Pro Forma Combined
Assets							
Current Assets							
Cash and equivalents	$ 200.7	$ 7.9	$ 263.0	a	$ (448.0)	b	$ 23.6
Trade accounts receivable, less allowances	1,152.9	90.9	—		—		1,243.8
Prepaid expenses and other current assets	83.2	7.5	—		0.2	c	90.9
Total current assets	1,436.8	106.3	263.0		(447.8)		1,358.3
Noncurrent Assets							
Net property and equipment	25.5	3.9	—		—		29.4
Operating lease right-of-use assets	46.3	12.5	—		—		58.8
Deferred taxes	318.9	(3.3)	—		(16.7)	d	298.9
Retirement plan assets	243.7	—	—				243.7
Goodwill, net	151.1	148.7	—		80.7	e	380.5
Intangibles, net	132.5	9.2	—		136.7	f	278.4
Other assets	40.6	16.7	1.1	a	(6.4)	c,g	52.0
Total noncurrent assets	958.6	187.7	1.1		194.3		1,341.7
Total Assets	$ 2,395.4	$ 294.0	$ 264.1		$ (253.5)		$ 2,700.0

Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 31, 2024
(In millions of dollars)

	Historical						
	Kelly Services, Inc.	MRP Topco, Inc. (See Note 4)	Debt Financing Transaction Adjustments	Note 5	Transaction Accounting Adjustments	Note 5	Pro Forma Combined
Liabilities and Stockholders' Equity							
Current Liabilities							
Accounts payable and accrued liabilities	$ 581.2	$ 25.1	$ —		$ 1.1	h	$ 607.4
Operating lease liabilities	8.4	4.0	—		—		12.4
Accrued payroll and related taxes	165.9	8.7	—		—		174.6
Accrued workers' compensation and other claims	22.0	—	—		—		22.0
Income and other taxes	20.0	—			—		20.0
Total current liabilities	797.5	37.8	—		1.1		836.4
Noncurrent Liabilities							
Operating lease liabilities	42.0	9.6	—		—		51.6
Accrued workers' compensation and other claims	40.9	—	—		—		40.9
Accrued retirement benefits	229.5	—	—		—		229.5
Other long-term liabilities	8.7	233.6	264.1	a	(233.6)	i	272.8
Total noncurrent liabilities	321.1	243.2	264.1		(233.6)		594.8
Stockholders' Equity							
Capital stock, $1.00 par value							
Class A common stock, 100.0 shares authorized; 35.2 million shares issued at 2024	35.2	—	—		—		35.2
Class B common stock, 10.0 shares authorized; 3.0 million shares issued at 2024	3.3	—	—		—		3.3
Treasury stock, at cost							—
Class A common stock, 3.0 million shares at 2024	(52.5)	—	—		—		(52.5)
Class B common stock	(0.6)	—	—		—		(0.6)
Paid-in capital	27.1	153.6	—		(153.6)	j	27.1
Earnings invested in the business	1,264.8	(140.5)	—		132.5	k	1,256.8
Accumulated other comprehensive income (loss)	(0.5)	(0.1)	—		0.1	j	(0.5)
Total stockholders' equity	1,276.8	13.0	—		(21.0)		1,268.8
Total Liabilities and Stockholders' Equity	$ 2,395.4	$ 294.0	$ 264.1		$ (253.5)		$ 2,700.0

The accompanying notes are an integral part of these Pro Forma Financial Statements.

Unaudited Pro Forma Combined Statement of Earnings
For the Year Ended December 31, 2023
(In millions of dollars except per share data)

	Historical						
	Kelly Services, Inc.	MRP Topco, Inc. (See Note 4)	Debt Financing Transaction Adjustments	Note 5	Transaction Accounting Adjustments	Note 5	Pro Forma Combined
Revenue from services	$ 4,835.7	$ 554.1	$ —		$ —		$ 5,389.8
Cost of services	3,874.3	386.6	—		—		4,260.9
Gross profit	961.4	167.5	—		—		1,128.9
Selling, general and administrative expenses	934.7	136.5	—		12.2	bb	1,083.4
Asset impairment charge	2.4	—	—		—		2.4
Earnings (loss) from operations	24.3	31.0	—		(12.2)		43.1
Unrealized loss on forward contract	(3.6)	—	—		—		(3.6)
Other income (expense), net	4.2	(28.6)	(18.5)	aa	21.0	cc, dd	(21.9)
Earnings (loss) before taxes	24.9	2.4	(18.5)		8.8		17.6
Income tax expense (benefit)	(11.5)	9.0	(4.7)	ee	(4.9)	ee	(12.1)
Net earnings (loss)	$ 36.4	$ (6.6)	$ (13.8)		$ 13.7		$ 29.7
Basic earnings (loss) per share	$ 0.99						$ 0.83
Diluted earnings (loss) per share	$ 0.98						$ 0.82
Average shares outstanding (millions):							
Basic	35.9						35.9
Diluted	36.3						36.3

The accompanying notes are an integral part of these Pro Forma Financial Statements.

Unaudited Pro Forma Condensed Combined Statement of Earnings
For the Three Months ended March 31, 2024
(In millions of dollars except per share data)

	Historical						
	Kelly Services, Inc.	MRP Topco, Inc. (See Note 4)	Debt Financing Transaction Adjustments	Note 5	Transaction Accounting Adjustments	Note 5	Pro Forma Combined
Revenue from services	$ 1,045.1	$ 130.5	$ —		$ —		$ 1,175.6
Cost of services	839.4	94.1	—		—		933.5
Gross profit	205.7	36.4	—		—		242.1
Selling, general and administrative expenses	190.5	32.0	—		3.1	bbb	225.6
Gain on sale of EMEA staffing operations	(11.6)	—	—		—		(11.6)
Earnings (loss) from operations	26.8	4.4	—		(3.1)		28.1
Gain on forward contract	1.2	—	—		—		1.2
Other income (expense), net	1.8	(7.9)	(4.6)	aaa	7.9	ccc	(2.8)
Earnings (loss) before taxes	29.8	(3.5)	(4.6)		4.8		26.5
Income tax expense (benefit)	4.0	—	(1.2)	ddd	0.3	ddd	3.1
Net earnings (loss)	$ 25.8	$ (3.5)	$ (3.4)		$ 4.5		$ 23.4
Basic earnings (loss) per share	$ 0.71						$ 0.66
Diluted earnings (loss) per share	$ 0.70						$ 0.65
Average shares outstanding (millions):							
Basic	35.4						35.4
Diluted	35.8						35.8

The accompanying notes are an integral part of these Pro Forma Financial Statements.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Description of the Transaction

On May 31, 2024, Kelly completed its acquisition of Motion Recruitment Partners, LLC ("MRP") by way of a merger with MRP Merger Sub, Inc. ("Merger Sub"), a newly-formed, wholly owned subsidiary of the Company, with and into MRP Topco ("Topco"), the indirect parent company of MRP and Littlejohn Fund V, L.P. ("Littlejohn"), with Topco surviving the merger (the "Merger").

Under terms of the merger agreement, the $425.0 million purchase price was adjusted for estimated cash held by MRP at the closing date and estimated working capital adjustments, resulting in the Company paying cash of $440.0 million. Total consideration includes $3.4 million of contingent consideration related to an earnout payment with a maximum potential cash payment of $60.0 million in the event certain financial metrics are met per the terms of the agreement. The earnout payment is based on a multiple of gross profit in excess of an agreed-upon amount during the earnout period, defined as the 12 months ending March 31, 2025, and any necessary payment is due to the Seller in the second quarter of 2025. The initial fair value of the earnout was established using a Monte Carlo simulation model.

2. Basis of Presentation

The Pro Forma Financial Statements have been prepared in accordance with Article 11 of Regulation S-X. The Pro Forma Financial Statements are based on Kelly's and MRP's historical financial information as adjusted to give effect to the business combination described above as if the transactions had been completed on March 31, 2024 with respect to the unaudited pro forma condensed combined balance sheet, and as of January 2, 2023 with respect to the unaudited pro forma condensed combined statement of earnings for the fiscal year ended December 31, 2023 and the unaudited pro forma condensed combined statement of earnings for the three months ended March 31, 2024.

The unaudited pro forma condensed combined balance sheet as of March 31, 2024 combines i) the unaudited consolidated balance sheets of Kelly as of March 31, 2024, and ii) the unaudited consolidated balance sheets of MRP as of March 31, 2024.

The unaudited pro forma condensed combined statement of earnings for the fiscal year ended December 31, 2023 combines i) the audited consolidated statements of earnings and audited consolidated statements of comprehensive income (loss) of Kelly for the fiscal year ended December 31, 2023, and ii) the audited consolidated statements of income (loss) and the audited consolidated statements of comprehensive income (loss) of MRP for the year ended December 31, 2023.

The unaudited pro forma condensed combined statement of earnings for the three months ended March 31, 2024 combines i) the unaudited consolidated statements of earnings and unaudited consolidated statements of comprehensive income (loss) of Kelly for the three months ended March 31, 2024, and ii) the unaudited consolidated statements of income (loss) and the unaudited consolidated statements of comprehensive income (loss) of MRP for the three months ended March 31, 2024.

The historical financial statements have been prepared in accordance with U.S. GAAP. The Pro Forma Financial Statements have been prepared based on the aforementioned historical financial statements and the assumptions and adjustments as described in Note 4 *Reclassification of MRP's Consolidated Balance Sheets and Consolidated Statements of Income (Loss)* and Note 5 *Adjustments to Pro Forma Condensed Combined Financial Information* of this Pro Forma Financial Statements. The Pro Forma Financial Statements have been prepared in accordance with Regulation S-X Article 11 and reflect preliminary estimates of the transaction accounting adjustments to the business combination referred to above and do not reflect the costs of any integration activities or benefits that may result from realization of future revenue growth or operational synergies expected to result from the business combination.

The accounting policies used in the preparation of the Pro Forma Financial Statements are those described in Kelly's audited consolidated financial statements as of and for the year ended December 31,2023 and subsequent unaudited interim periods. The Company has performed a preliminary review of MRP's accounting policies to determine whether any adjustments were necessary to ensure comparability in the unaudited pro forma condensed combined financial information. Currently, the Company is not aware of any other material differences between the accounting policies of the Company and MRP that would continue to exist subsequent to the application of acquisition accounting.

Reclassification adjustments have been made to the historical presentation of MRP to conform to the financial statement presentation of Kelly for the unaudited pro forma condensed combined financial information as noted below. Refer to *Note 4 –*

Reclassification of MRP's Consolidated Balance Sheets and Consolidated Statements of Income (Loss) for further details on the reclassification adjustments.

Accounting for the MRP Acquisition

The unaudited pro forma condensed combined financial information has been prepared assuming the MRP acquisition is accounted for using the acquisition method of accounting under Accounting Standards Codification ("ASC") 805 *Business Combinations* ("ASC 805") with Kelly as the acquiring entity. Under the acquisition method of accounting, Kelly's assets and liabilities will retain their carrying values, and the assets and liabilities of MRP's will be recorded at their fair values measured as of the acquisition date under ASC 820 *Fair Value Measurements* ("ASC 820"). The excess of the purchase price over the estimated fair values of the net assets acquired, if applicable, will be recorded as goodwill. Further, the earnout provision is classified as a liability in accordance with ASC 480 and will be recorded at fair value as of the date of the consummation of the merger and reassessed on an ongoing basis.

Accounting for the Debt Financing Transaction

On May 29, 2024, the Company undertook significant amendments to its financial agreements and facilities. An existing $200.0 million, five-year revolving credit facility was modified, resulting in a reduced borrowing capacity of $150.0 million, with provisions allowing an increase up to $300.0 million. Additionally, adjustments were made to various terms and conditions, extending the maturity date to May 29, 2029. Concurrently, the Company enhanced its security by entering into an Amended and Restated Pledge and Security Agreement, pledging certain assets against this credit facility.

Moreover, on the same day, the Company and Kelly Receivables Funding, LLC, a fully owned subsidiary, revised their Receivables Purchase Agreement concerning a $150.0 million securitization facility. This amendment increased the borrowing capacity to $250.0 million, offering the possibility of a further increase to $350.0 million, alongside adjustments to several terms, setting a new maturity date of May 28, 2027.

Following these amendments, on May 30, 2024, aligned with the acquisition of MRP, the Company leveraged $203.0 million from the securitization facility and $87.0 million from the revolving credit facility. By May 31, 2024, the Company had $263.0 million outstanding under these facilities. Following these draw downs, the remaining available capacity, net of outstanding borrowings and letters of credit, was $0.9 million for the securitization facility and $87.0 million for the revolving credit facility. For purposes of the Pro Forma Financial Statements, the interest rate of the credit facilities is 6.73% per annum, which is comprised of the Adjusted Term SOFR, as of May 29, 2024, plus an applicable spread each as defined in the Company's credit facilities. Interest has been accrued in the Pro Forma Financial Statements over the respective periods.

3. Preliminary Fair Value Estimate of Purchase Price Allocation to Assets Acquired and Liabilities Assumed

For the purposes of the Pro Forma Financial Statements, the aggregate cash consideration consisted of $425.0 million per the terms of the merger agreement, subject to (i) estimated closing cash of $13.6 million, (ii) working capital adjustments and other considerations of $1.4 million, and (iii) an earnout provision based upon MRP's gross profit for the trailing twelve months ending March 31, 2025 with an estimated fair value $3.4 million. The earnout payment is based on a multiple of gross profit in excess of an agreed-upon amount during the earnout period and any necessary payment is due to the Seller in the second quarter of 2025. The initial fair value of the earnout was established using a Monte Carlo simulation model and the maximum potential cash payment for the earnout is $60.0 million.

The following table summarizes the total consideration for the acquisition for the purposes of the Pro Forma Financial Statements as of March 31, 2024 (in millions):

Cash consideration paid	$	425.0
Estimated cash acquired		13.6
Estimated net working capital adjustment		1.4
Total cash consideration		440.0
Additional consideration payable		3.4
Total consideration	$	443.4

The following table summarizes the allocation of total consideration of the acquisition to the estimated fair values of the tangible and identifiable intangible assets acquired and liabilities assumed based on the condensed consolidated balance sheet of MRP as of March 31, 2024 (in millions):

Assets acquired:		
Cash and equivalents	$	7.9
Trade accounts receivable, less allowances		90.9
Prepaid expenses and other current assets		7.7
Net property and equipment		3.9
Operating lease right-of-use assets		12.5
Goodwill, net		229.4
Intangibles, net		145.9
Other assets		10.3
Total assets acquired	$	508.5
Liabilities assumed:		
Accounts payable and accrued liabilities	$	22.8
Operating lease liabilities		4.0
Accrued payroll and related taxes		8.7
Operating lease liabilities (noncurrent)		9.6
Other long-term liabilities		20.0
Total liabilities assumed		65.1
Net assets acquired	$	443.4

The allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities assumed is preliminary until the Company obtains final information regarding their fair values. A final determination of the fair value of MRP's assets acquired and liabilities assumed will be performed within one year of the closing date of the acquisition. The final purchase consideration allocation may be materially different from that presented in the unaudited pro forma financial information herein. Goodwill generated from the acquisition was primarily attributable to expanding market potential and the expected revenue and operational synergies. The intangibles included in the assets purchased is made up of $88.1 million in customer relationships, $56.5 million associated with MRP's trade names, and $1.3 million for non-compete agreements. The trade names will be amortized over 10-15 years with no residual value, customer relationships will be amortized over 15 years with no residual value and the non-compete agreements will be amortized over four years with no residual value. The property and equipment acquired consisted of furniture and fixtures, computers, and leasehold improvements. The fair values of the property and equipment were determined based on guidance pursuant to ASC 805 – Business Combinations and ASC 810 – Consolidation and the carrying amounts approximate the fair values of these assets.

4. Reclassification of MRP's Consolidated Balance Sheets and Consolidated Statements of Income (Loss)

Caption alignment and reclassification adjustments have been made to the historical presentation of MRP to conform to the financial statement presentation of Kelly for the unaudited pro forma condensed combined balance sheet. The following table summarizes the reclassifications of the unaudited consolidated balance sheets of MRP as of March 31, 2024 (in millions):

	Historical MRP as of March 31, 2024	Reclassification Adjustments	Note 4	Historical MRP as of March 31, 2024 as reclassified
Assets				
Current assets				
Cash and equivalents	$ 7.9	$ —		$ 7.9
Accounts receivable, net of allowance for placement fall-offs and credit losses	69.1	(69.1)	(a)	—
Trade accounts receivable, less allowances		90.9	(a),(b)	90.9
Unbilled receivables	21.8	(21.8)	(b)	—
Prepaid expenses and other current assets	3.7	3.8	(c)	7.5
Prepaid income taxes	1.6	(1.6)	(c)	—
Cloud computing costs	2.2	(2.2)	(c)	—
Total current assets	106.3	—		106.3
Property and equipment, net	3.9	(3.9)	(a)	—
Net property and equipment		3.9	(a)	3.9
Security deposits	1.1	(1.1)	(d)	—
Right-of-use assets, net	12.5	(12.5)	(a)	—
Operating lease right-of-use assets		12.5	(a)	12.5
Goodwill	148.7	(148.7)	(a)	—
Goodwill, net		148.7	(a)	148.7
Deferred taxes		(3.3)	(a)	(3.3)
Intangible assets, net	9.2	(9.2)	(a)	—
Intangibles, net		9.2	(a)	9.2
Other assets		16.7	(d),(h)	16.7
Cloud computing costs, net of current portion	12.6	(12.6)	(d)	—
Total Assets	$ 294.3	$ (0.3)		$ 294.0

	Historical MRP as of March 31, 2024	Reclassification Adjustments	Note 4	Historical MRP as of March 31, 2024 as reclassified
Liabilities and Shareholders' Equity (Deficiency)				
Current Liabilities				
Accounts payable	$ 18.6	$ (18.6)	(e)	$ —
Accrued expenses	15.2	(15.2)	(e), (f)	—
Accounts payable and accrued liabilities		25.1	(e), (f)	25.1
Lease liabilities, current portion	4.0	(4.0)	(a)	—
Operating lease liabilities		4.0	(a)	4.0
Deferred tax liability, net	3.3	(3.3)	(a)	—
Accrued payroll and related taxes		8.7	(f)	8.7
Asset-based line of credit	3.0	(3.0)	(g)	—
Total current liabilities	44.1	(6.3)		37.8
Long-term debt, net of current portion	227.6	(227.6)	(g), (h)	—
Lease liabilities, net of current portion	9.6	(9.6)	(a)	—
Operating lease liabilities (noncurrent)		9.6	(a)	9.6
Other long-term liabilities		233.6	(a), (g)	233.6
Total Liabilities	281.3	(0.3)		281.0
Shareholders' equity (deficiency)				
Additional paid-in capital	153.6	(153.6)	(a)	—
Paid-in capital		153.6	(a)	153.6
Accumulated deficit	(140.5)	140.5	(a)	—
Earnings invested in the business		(140.5)	(a)	(140.5)
Accumulated other comprehensive loss	(0.1)	0.1	(a)	—
Accumulated other comprehensive income (loss)		(0.1)	(a)	(0.1)
Total shareholders' equity (deficiency)	13.0	—		13.0
Total liabilities and shareholders' equity (deficiency)	$ 294.3	$ (0.3)		$ 294.0

(a) Caption alignment
(b) Kelly accounts for unbilled receivables within Trade accounts receivable; in order to align with this presentation, we have reclassified these line items accordingly.
(c) Kelly's first quarter 2024 balance sheet does not present separate financial statement line items (FSLIs) for Prepaid income taxes or Cloud computing costs. As such, these captions for MRP were collapsed into Kelly's Prepaid expenses and other current assets FSLI, which was the caption that most aligned with the MRP items.
(d) Kelly's first quarter 2024 balance sheet does not present separate FSLIs for Security deposits and Cloud computing costs, net of current portion. As such, these captions for MRP were collapsed into Kelly's Other assets FSLI, which was the caption that most aligned with the MRP items.
(e) To align with Kelly's first quarter 2024 presentation, MRP's Accounts payable and Accrued expenses FSLIs were collapsed into Kelly's Accounts payable and accrued liabilities FSLI.
(f) To split out accrued expenses related to payroll and related taxes, previously included within Accrued expenses.
(g) MRP’s line of credit and long-term debt were reclassified into Kelly’s Other long-term liabilities FSLI which most aligned with the MRP items.
(h) To reclassify debt issuance costs which were net with MRP’s long-term debt to align with Kelly’s classification within the Other asset FSLI.

Caption and reclassification adjustments have been made to the historical presentation of MRP to conform to the financial statement presentation of Kelly for the unaudited pro forma condensed combined statement of earnings. The following table summarizes the reclassifications of the consolidated statements of income (loss) of MRP for the year ended December 31, 2023 (in millions):

	Historical MRP for the year ended December 31, 2023	**Reclassification Adjustments**	**Note 4**	**Historical MRP for the year ended December 31, 2023, as reclassified**
Net revenues	$ 554.1	$ (554.1)	(a)	$ —
Revenue from services	—	554.1	(a)	554.1
Cost of services	470.1	(83.5)	(b)	386.6
Gross profit	84.0	83.5		167.5
Selling, general and administrative expenses	—	136.5	(a),(b)	136.5
Operating expenses	51.9	(51.9)	(a)	—
Merger and acquisition expenses	0.2	(0.2)	(a)	—
Share-based compensation expense	0.6	(0.6)	(a)	—
Related party management fees	0.3	(0.3)	(a)	—
Earnings from operations	31.0	—		31.0
Other income (expense), net	—	(28.6)	(a)	(28.6)
Interest expense and amortization of debt issuance costs	(29.0)	29.0	(a)	—
Interest income	0.4	(0.4)	(a)	—
Earnings before tax expense	2.4	—		2.4
Income tax expense (benefit)	9.0	—		9.0
Net earnings (loss)	$ (6.6)	$ —		$ (6.6)

(a) Caption alignment
(b) To reclassify certain costs from Cost of services to Selling, general and administrative expenses consistent with Kelly's financial statement presentation

Caption alignment and reclassification adjustments have been made to the historical presentation of MRP to conform to the financial statement presentation of Kelly for the unaudited pro forma condensed combined statement of earnings. The following table summarize the reclassifications of the unaudited consolidated statements of income (loss) of MRP for the three months ended March 31, 2024 (in millions):

	Historical MRP for the three months ended March 31, 2024	Reclassification Adjustments	Note 4	Historical MRP for the three months ended March 31, 2024, as reclassified
Net revenues	$ 130.5	$ (130.5)	(a)	$ —
Revenue from services	—	130.5	(a)	130.5
Cost of services	113.8	(19.7)	(b)	94.1
Gross profit	16.7	19.7		36.4
Selling, general and administrative expenses	—	32.0	(a),(b)	32.0
Operating expenses	12.0	(12.0)	(a)	—
Share-based compensation expense	0.2	(0.2)	(a)	—
Related party management fees	0.1	(0.1)	(a)	—
Earnings from operations	4.4	—		4.4
Other income (expense), net	—	(7.9)	(a)	(7.9)
Interest expense and amortization of debt issuance costs	(7.9)	7.9	(a)	—
Earnings before tax expense	(3.5)	—		(3.5)
Income tax expense (benefit)	—	—		—
Net earnings (loss)	$ (3.5)	$ —		$ (3.5)

(a) Caption alignment
(b) To reclassify certain costs from Cost of services to Selling, general and administrative expenses consistent with Kelly's financial statement presentation

5. Adjustments to the Pro Forma Financial Statements

Adjustment to the Pro Forma Condensed Combined Balance Sheet

The pro forma adjustments to the unaudited pro forma condensed combined balance sheet as of March 31, 2024 are as follows:

Debt Financing Transactions Accounting Adjustments

(a) Represents adjustment for drawing down from the revolving credit and securitization facilities of $263.0 million, inclusive of financing fees and for debt issuance costs of $1.1 million.

MRP Acquisition Transaction Accounting Adjustments

(b) Represents the cash consideration of $440.0 million paid by the Company to acquire MRP based on the fair value of the net assets acquired as presented in the Preliminary Fair Value Estimate of Purchase Price Allocation to Assets Acquired and Liabilities Assumed footnote as of March 31, 2024, in addition to $8.0 million of acquisition-related costs incurred by the Company after the pro forma period presented.

(c) Adjustments to Prepaid expenses and other current assets for $0.2 million and to Other assets for a reduction of $3.4 million reflects the necessary amounts to align the cloud computing costs related to internal-use software with its total estimated fair value of $11.5 million, which was valued using the cost approach.

(d) Represents a $27.0 million deferred tax liabilities adjustment resulting from fair value adjustments of assets acquired and liabilities assumed and a $10.3 million release of MRP's deferred income tax assets valuation allowance.

(e) Goodwill represents the excess of the purchase price over the fair value of the net assets as adjusted in the unaudited pro forma condensed combined balance sheet as of March 31, 2024 reflecting the preliminary purchase price allocation.

(f) Adjustment to intangibles reflects the necessary amounts to align the intangibles with their estimated fair values. Intangibles consist of customer relationships, trade names, and non-compete agreements. The customer relationships were valued using the multi-period excess earnings method, the trade names were valued using the relief from royalty method, and the non-compete agreements were valued using the with-and-without method. The following table presents the estimated fair values and useful lives.

	Estimated fair value (in millions)		Useful life (Years)
Customer relationships	$	88.1	15
Trade names		56.5	10-15
Non-compete agreements		1.3	4
Total	$	145.9	

(g) Adjustment for $3.0 million reflects the derecognition of the deferred financing fees associated with MRP's historical term loans.

(h) Adjustments to Accounts payable and accrued liabilities include establishing a $3.4 million earnout liability representing its initial fair value using a Monte Carlo simulation model and the elimination of $2.3 million of accrued interest costs on MRP's historical debt that was settled at closing.

(i) Adjustment to eliminate MRP's historical debt that was settled at closing.

(j) Adjustments to remove the historical equity of MRP.

(k) Represents the adjustment to remove MRP's historical retained earnings and the $8.0 million of transaction expenses incurred by the Company.

Adjustment to the Pro Forma Condensed Combined Statement of Earnings for the fiscal year ended December 31, 2023

The pro forma adjustments included in the unaudited pro forma condensed combined statement of earnings for the fiscal year ended December 31, 2023, are as follows:

Debt Financing Transactions Accounting Adjustments

(aa) Represents adjustments for interest expense and associated amortization of issuance costs resulting from the draw down from the revolving credit facility. A 1/8 percent variance in the interest rate would result in a change in the interest expense of approximately $0.3 million for the year ended December 31, 2023.

MRP Acquisition Transaction Accounting Adjustments

(bb) Represents total intangible asset amortization of $13.8 million less historical intangible asset amortization recognized by MRP for the same period of $1.6 million for net adjustments to intangible asset amortization of $12.2 million to align to total amortization as presented below as a result of the fair value adjustments of identifiable intangible assets that were acquired through the acquisition.

	Estimated fair value (in millions)		Useful life (Years)	Amortization for the year ended December 31, 2023 (in millions)	
Customer relationships	$	88.1	15	$	5.9
Trade names		56.5	10-15		5.3
Non-compete agreements		1.3	4		0.3
Software		11.5	5		2.3
Total	$	157.4		$	13.8

(cc) Represents adjustments to account for the recognition of the acquisition-related costs of $8.0 million incurred by Kelly after the pro forma period presented. Such acquisition-related costs are non-recurring and were primarily incurred for banker and brokerage and legal and professional services.

(dd) Represents reversal of $29.0 million of interest and amortization expense of MRP associated with the term loans and line of credit that were fully repaid at closing of the transaction.

(ee) Represents $4.7 million income tax benefit relating to the Debt Financing Transaction Accounting Adjustments and $3.4 million income tax expense relating to the MRP Acquisition Transaction Accounting Adjustments utilizing the Company’s estimated blended statutory rates of 25.35%, and $8.3 million income tax benefit due to the release of MRP’s deferred income tax assets valuation allowance. The estimated blended statutory rates are preliminary and could be different depending on post-acquisition activities, the geographical mix of income and changes in tax law.

Adjustment to the Pro Forma Condensed Combined of Earnings for the three months ended March 31, 2024

The pro forma adjustments included in the unaudited pro forma condensed combined statement of earnings for the three-month period ended March 31, 2024, are as follows:

Debt Financing Transactions Accounting Adjustments

(aaa) Represents adjustments for interest expense and associated amortization of issuance costs resulting from the draw down from the revolving credit facility. A 1/8 percent variance in the interest rate would result in a change in the interest expense of approximately $0.1 million for the 3 months ended March 31, 2024.

MRP Acquisition Transaction Accounting Adjustments

(bbb) Represents total intangible asset amortization of $3.5 million less historical intangible asset amortization recognized by MRP for the same period of $0.4 million for net adjustments to intangible asset amortization of $3.1 million, to align to total amortization as presented below as a result of the fair value adjustments of identifiable intangible assets that were acquired through the acquisition.

	Estimated fair value (in millions)	Useful life (Years)	Amortization for the three months ended March 31, 2024 (in millions)
Customer relationships	$ 88.1	15	$ 1.5
Trade names	56.5	10-15	1.3
Non-compete agreements	1.3	4	0.1
Software	11.5	5	0.6
Total	$ 157.4		$ 3.5

(ccc) Represents reversal of interest and amortization expense of MRP associated with the term loans and line of credit that were fully repaid at closing of the transaction.

(ddd) Represents $1.2 million income tax benefit relating to the Debt Financing Transaction Accounting Adjustments and $1.2 million income tax expense relating to the MRP Acquisition Transaction Accounting Adjustments utilizing the Company’s estimated blended statutory rates of 25.35%, and $0.9 million income tax benefit due to the release of MRP’s deferred income tax assets valuation allowance. The estimated blended statutory rates are preliminary and could be different depending on post-acquisition activities, the geographical mix of income and changes in tax law.