

KELLY SERVICES INC

FORM 10-Q (Quarterly Report)

Filed 11/08/17 for the Period Ending 10/01/17

| | |
|-------------|--|
| Address | 999 W BIG BEAVER RD TROY, MI, 48084 |
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 1, 2017

OR

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

Commission File Number 0-1088

KELLY SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

38-1510762

(State or other jurisdiction of incorporation or organization)

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

999 WEST BIG BEAVER ROAD, TROY, MICHIGAN 48084

(Address of principal executive offices) (Zip Code)

(248) 362-4444

(Registrant's telephone number, including area code)

No Change

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

Yes No

At October 30, 2017, 34,991,496 shares of Class A and 3,434,362 shares of Class B common stock of the Registrant were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
 (UNAUDITED)
 (In millions of dollars except per share data)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Revenue from services | \$ 1,328.8 | \$ 1,247.8 | \$ 3,952.1 | \$ 3,972.4 |
| Cost of services | 1,098.1 | 1,032.7 | 3,261.0 | 3,294.1 |
| Gross profit | 230.7 | 215.1 | 691.1 | 678.3 |
| Selling, general and administrative expenses | 212.5 | 196.3 | 636.2 | 634.9 |
| Earnings from operations | 18.2 | 18.8 | 54.9 | 43.4 |
| Gain on investment in TS Kelly Asia Pacific | — | 87.2 | — | 87.2 |
| Other expense, net | (0.4) | (0.4) | (2.5) | (1.3) |
| Earnings before taxes and equity in net earnings (loss) of affiliate | 17.8 | 105.6 | 52.4 | 129.3 |
| Income tax (benefit) expense | (4.1) | 24.7 | 0.1 | 28.2 |
| Net earnings before equity in net earnings (loss) of affiliate | 21.9 | 80.9 | 52.3 | 101.1 |
| Equity in net earnings (loss) of affiliate | 1.1 | — | 1.6 | (0.1) |
| Net earnings | \$ 23.0 | \$ 80.9 | \$ 53.9 | \$ 101.0 |
| Basic earnings per share | \$ 0.59 | \$ 2.08 | \$ 1.38 | \$ 2.59 |
| Diluted earnings per share | \$ 0.58 | \$ 2.06 | \$ 1.37 | \$ 2.58 |
| Dividends per share | \$ 0.075 | \$ 0.075 | \$ 0.225 | \$ 0.20 |
| Average shares outstanding (millions): | | | | |
| Basic | 38.3 | 38.1 | 38.3 | 38.0 |
| Diluted | 38.8 | 38.4 | 38.8 | 38.3 |

See accompanying unaudited Notes to Consolidated Financial Statements.

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

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Net earnings | \$ 23.0 | \$ 80.9 | \$ 53.9 | \$ 101.0 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments, net of tax expense of \$0.2, tax benefit of \$1.8, tax expense of \$0.3 and tax benefit of \$1.7, respectively | 3.4 | 1.8 | 16.0 | 13.1 |
| Less: Reclassification adjustments included in net earnings | — | 0.2 | — | (0.1) |
| Foreign currency translation adjustments | 3.4 | 2.0 | 16.0 | 13.0 |
| Unrealized gains on investment, net of tax expense of \$12.9, \$0.6, \$21.9 and \$4.3, respectively | 28.8 | 1.3 | 48.6 | 8.8 |
| Other comprehensive income | 32.2 | 3.3 | 64.6 | 21.8 |
| Comprehensive income | <u>\$ 55.2</u> | <u>\$ 84.2</u> | <u>\$ 118.5</u> | <u>\$ 122.8</u> |

See accompanying unaudited Notes to Consolidated Financial Statements.

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

| <u>ASSETS</u> | October 1, 2017 | January 1, 2017 |
|---|--------------------|--------------------|
| CURRENT ASSETS: | | |
| Cash and equivalents | \$ 22.2 | \$ 29.6 |
| Trade accounts receivable, less allowances of \$13.1 and \$12.5, respectively | 1,271.7 | 1,138.3 |
| Prepaid expenses and other current assets | 70.0 | 46.7 |
| Total current assets | 1,363.9 | 1,214.6 |
| NONCURRENT ASSETS: | | |
| Property and equipment: | | |
| Property and equipment | 285.0 | 270.0 |
| Accumulated depreciation | (203.6) | (189.2) |
| Net property and equipment | 81.4 | 80.8 |
| Deferred taxes | 192.0 | 180.1 |
| Goodwill | 107.1 | 88.4 |
| Investment in equity affiliate | 116.4 | 114.8 |
| Other assets | 475.9 | 349.4 |
| Total noncurrent assets | 972.8 | 813.5 |
| TOTAL ASSETS | \$ 2,336.7 | \$ 2,028.1 |

See accompanying unaudited Notes to Consolidated Financial Statements.

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

| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | October 1, 2017 | January 1, 2017 |
|---|--------------------|--------------------|
| CURRENT LIABILITIES: | | |
| Short-term borrowings | \$ 23.9 | \$ — |
| Accounts payable and accrued liabilities | 496.1 | 455.1 |
| Accrued payroll and related taxes | 312.6 | 241.5 |
| Accrued insurance | 25.6 | 23.4 |
| Income and other taxes | 60.0 | 51.1 |
| Total current liabilities | <u>918.2</u> | <u>771.1</u> |
| NONCURRENT LIABILITIES: | | |
| Accrued insurance | 49.7 | 45.5 |
| Accrued retirement benefits | 175.0 | 157.4 |
| Other long-term liabilities | 66.8 | 42.1 |
| Total noncurrent liabilities | <u>291.5</u> | <u>245.0</u> |
| Commitments and contingencies (see contingencies footnote) | | |
| STOCKHOLDERS' EQUITY: | | |
| Capital stock, \$1.00 par value | | |
| Class A common stock, shares issued 36.6 at 2017 and 2016 | 36.6 | 36.6 |
| Class B common stock, shares issued 3.5 at 2017 and 2016 | 3.5 | 3.5 |
| Treasury stock, at cost | | |
| Class A common stock, 1.7 shares at 2017 and 1.9 shares at 2016 | (34.6) | (38.4) |
| Class B common stock | (0.6) | (0.6) |
| Paid-in capital | 30.0 | 28.6 |
| Earnings invested in the business | 968.8 | 923.6 |
| Accumulated other comprehensive income | 123.3 | 58.7 |
| Total stockholders' equity | <u>1,127.0</u> | <u>1,012.0</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 2,336.7</u> | <u>\$ 2,028.1</u> |

See accompanying unaudited Notes to Consolidated Financial Statements.

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

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Capital Stock | | | | |
| Class A common stock | | | | |
| Balance at beginning of period | \$ 36.6 | \$ 36.6 | \$ 36.6 | \$ 36.6 |
| Conversions from Class B | — | — | — | — |
| Balance at end of period | 36.6 | 36.6 | 36.6 | 36.6 |
| Class B common stock | | | | |
| Balance at beginning of period | 3.5 | 3.5 | 3.5 | 3.5 |
| Conversions to Class A | — | — | — | — |
| Balance at end of period | 3.5 | 3.5 | 3.5 | 3.5 |
| Treasury Stock | | | | |
| Class A common stock | | | | |
| Balance at beginning of period | (37.0) | (41.5) | (38.4) | (43.7) |
| Issuance of restricted stock and other | 2.4 | 3.0 | 3.8 | 5.2 |
| Balance at end of period | (34.6) | (38.5) | (34.6) | (38.5) |
| Class B common stock | | | | |
| Balance at beginning of period | (0.6) | (0.6) | (0.6) | (0.6) |
| Issuance of restricted stock and other | — | — | — | — |
| Balance at end of period | (0.6) | (0.6) | (0.6) | (0.6) |
| Paid-in Capital | | | | |
| Balance at beginning of period | 31.1 | 28.1 | 28.6 | 25.4 |
| Issuance of restricted stock and other | (1.1) | (1.9) | 1.4 | 0.8 |
| Balance at end of period | 30.0 | 26.2 | 30.0 | 26.2 |
| Earnings Invested in the Business | | | | |
| Balance at beginning of period | 948.7 | 828.8 | 923.6 | 813.5 |
| Net earnings | 23.0 | 80.9 | 53.9 | 101.0 |
| Dividends | (2.9) | (2.9) | (8.7) | (7.7) |
| Balance at end of period | 968.8 | 906.8 | 968.8 | 906.8 |
| Accumulated Other Comprehensive Income | | | | |
| Balance at beginning of period | 91.1 | 79.2 | 58.7 | 60.7 |
| Other comprehensive income, net of tax | 32.2 | 3.3 | 64.6 | 21.8 |
| Balance at end of period | 123.3 | 82.5 | 123.3 | 82.5 |
| Stockholders' Equity at end of period | \$ 1,127.0 | \$ 1,016.5 | \$ 1,127.0 | \$ 1,016.5 |

See accompanying unaudited Notes to Consolidated Financial Statements.

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

| | 39 Weeks Ended | |
|---|--------------------|--------------------|
| | October 1, 2017 | October 2, 2016 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 53.9 | \$ 101.0 |
| Noncash adjustments: | | |
| Depreciation and amortization | 16.5 | 16.0 |
| Provision for bad debts | 3.6 | 6.1 |
| Stock-based compensation | 6.8 | 7.6 |
| Gain on investment in TS Kelly Asia Pacific equity affiliate | — | (87.2) |
| Other, net | (2.3) | (2.2) |
| Changes in operating assets and liabilities, net of acquisition | (45.6) | (13.1) |
| Net cash from operating activities | 32.9 | 28.2 |
| Cash flows from investing activities: | | |
| Capital expenditures | (14.7) | (7.8) |
| Acquisition of company, net of cash received | (37.2) | — |
| Net cash proceeds from investment in TS Kelly Asia Pacific equity affiliate | — | 18.8 |
| Proceeds from repayment of loan to TS Kelly equity affiliate | 0.6 | — |
| Other investing activities | — | (0.4) |
| Net cash (used in) from investing activities | (51.3) | 10.6 |
| Cash flows from financing activities: | | |
| Net change in short-term borrowings | 23.9 | (47.8) |
| Dividend payments | (8.7) | (7.7) |
| Payments of tax withholding for restricted shares | (1.7) | (2.1) |
| Other financing activities | (0.1) | 0.4 |
| Net cash from (used in) financing activities | 13.4 | (57.2) |
| Effect of exchange rates on cash and equivalents | (2.4) | 3.8 |
| Net change in cash and equivalents | (7.4) | (14.6) |
| Cash and equivalents at beginning of period | 29.6 | 42.2 |
| Cash and equivalents at end of period | \$ 22.2 | \$ 27.6 |

See accompanying unaudited Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Kelly Services, Inc. (the “Company,” “Kelly,” “we” or “us”) have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and notes required by generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the results of the interim periods, have been made. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended January 1, 2017, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 17, 2017 (the 2016 consolidated financial statements). The Company’s third fiscal quarter ended on October 1, 2017 (2017) and October 2, 2016 (2016), each of which contained 13 weeks. The corresponding September year to date periods for 2017 and 2016 each contained 39 weeks.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. SG&A expenses for the 13 and 39 weeks ended October 1, 2017 include a \$2.8 million and \$1.4 million, respectively, benefit resulting from an out-of-period correction of expenses that were overstated in prior periods. The out-of-period errors and adjustments did not have a material effect on any of the periods impacted.

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

2. Acquisition

On September 5, 2017, Kelly Services USA, LLC, a wholly owned subsidiary of the Company, acquired 100% of the issued and outstanding shares of Teachers On Call, Inc. (“TOC”), an educational staffing firm in the U.S. for a purchase price of \$41.0 million. Under terms of the purchase agreement, the purchase price was adjusted for cash held by TOC at the closing date less an estimated working capital adjustment resulting in the Company paying cash of \$39.0 million at closing. The final purchase price is subject to a final working capital adjustment calculation, which is not expected to be material. The purchase price allocation for this acquisition is preliminary and could change.

This acquisition will increase our market share in the educational staffing market in the U.S. TOC’s results of operations are included in the Americas Staffing segment as of the 2017 third quarter end.

Pro forma results of operations for this acquisition have not been presented as it is not material to the consolidated statement of earnings. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in millions of dollars):

| | | |
|--------------------------------|-----------|-------------|
| Cash | \$ | 1.8 |
| Other current assets | | 3.6 |
| Goodwill | | 18.7 |
| Intangibles | | 18.3 |
| Other noncurrent assets | | 0.5 |
| Current liabilities | | (3.9) |
| Purchase price paid at closing | <u>\$</u> | <u>39.0</u> |

Included in the assets purchased was approximately \$18.3 million of intangible assets, made up of \$12.0 million in customer relationships, \$4.8 million associated with TOC’s trademark and \$1.5 million for a candidate database. The customer relationships will be amortized over 10 years with no residual value and the database will be amortized over four years with no residual value. The trademark has an indefinite life. Goodwill generated from this acquisition is primarily attributable to expected synergies from combining operations and expanding market potential, and is assigned to the Americas Staffing reporting unit (see Goodwill footnote). The amount of goodwill expected to be deductible for tax purposes is

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

approximately \$18.3 million . An indemnification asset of \$2.8 million was recognized as of the acquisition date related to pre-acquisition tax liabilities.

3. Investment in TS Kelly Asia Pacific

The Company has a 49% ownership interest in TS Kelly Asia Pacific. The operating results of the Company’s interest in TS Kelly Asia Pacific are accounted for on a one-quarter lag under the equity method and are reported in the equity in net earnings (loss) of affiliate in the consolidated statement of earnings. These operating results include the operating results of the Company’s interest in TS Kelly Workforce Solutions, a previous joint venture in which the Company held a 49% interest, which was transferred to TS Kelly Asia Pacific during the first quarter of 2017. In the third quarter of 2016, the Company recorded a pretax gain of \$87.2 million on the investment in TS Kelly Asia Pacific in the consolidated statement of earnings, which represented the fair value of the Company’s retained investment in TS Kelly Asia Pacific in addition to the cash received less the carrying value of net assets transferred to the joint venture.

The investment in equity affiliate on the Company’s consolidated balance sheet totaled \$116.4 million as of third quarter-end 2017 and \$114.8 million as of year-end 2016 . The net amount due to TS Kelly Asia Pacific, a related party, was \$3.8 million as of the third quarter-end 2017 and \$1.1 million as of year-end 2016 . The amount included in trade accounts payable for staffing services provided by TS Kelly Asia Pacific as a supplier to CWO programs was \$2.4 million as of third quarter-end 2017 and \$3.1 million as of year-end 2016 .

4. Fair Value Measurements

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

Assets Measured at Fair Value on a Recurring Basis

The following tables present assets measured at fair value on a recurring basis on the consolidated balance sheet as of third quarter-end 2017 and year-end 2016 by fair value hierarchy level, as described below.

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

| Description | Fair Value Measurements on a Recurring Basis As of Third Quarter-End 2017 | | | |
|-------------------------------|--|-----------------|-------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| | (In millions of dollars) | | | |
| Money market funds | \$ 4.2 | \$ 4.2 | \$ — | \$ — |
| Available-for-sale investment | 212.4 | 212.4 | — | — |
| Total assets at fair value | <u>\$ 216.6</u> | <u>\$ 216.6</u> | <u>\$ —</u> | <u>\$ —</u> |

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

Money market funds as of third quarter-end 2017 and 2016 represent investments in money market accounts, all of which are restricted as to use and included in other assets on the consolidated balance sheet. The valuations of money market funds were based on quoted market prices of those accounts as of the respective period end.

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

Available-for-sale investment represents the Company’s investment in Persol Holdings (formerly Temp Holdings), the Company’s joint venture partner in TS Kelly Asia Pacific, and is included in other assets on the consolidated balance sheet. The valuation is based on the quoted market price of Persol Holdings stock on the Tokyo Stock Exchange as of the period end. The unrealized gain, net of tax, of \$28.8 million for the third quarter of 2017 and \$1.3 million for the third quarter of 2016 was recorded in other comprehensive income, and in accumulated other comprehensive income, a component of stockholders’ equity. The unrealized gain, net of tax, of \$48.6 million for September year to date 2017 and \$8.8 million for September year to date 2016 was recorded in other comprehensive income, as well as in accumulated other comprehensive income. The cost of this yen-denominated investment, which fluctuates based on foreign exchange rates, was \$18.4 million as of the third quarter-end 2017 and \$17.7 million at year-end 2016 .

Assets Measured at Fair Value on a Nonrecurring Basis

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

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

5. Restructuring

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

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

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

| | | |
|--|----|-------|
| Balance as of year-end 2016 | \$ | 0.5 |
| Additions charged to Global Talent Solutions | | 2.0 |
| Additions charged to Americas Staffing | | 0.4 |
| Reductions for cash payments related to all restructuring activities | | (0.7) |
| Balance as of first quarter-end 2017 | | 2.2 |
| Reductions for cash payments related to all restructuring activities | | (1.3) |
| Balance as of second quarter-end 2017 | | 0.9 |
| Reductions for cash payments related to all restructuring activities | | (0.4) |
| Balance as of third quarter-end 2017 | \$ | 0.5 |

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

6. Goodwill

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

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

See Acquisition footnote for a description of the additions to goodwill in the third quarter of 2017. The additions in the carrying amount of goodwill for the third quarter-end 2017 are included in the table below.

| | As of Year-End 2016 | | | | As of Third Quarter-End 2017 | |
|--------------------------|---------------------|-------------------------------|----------------|------------------------|------------------------------|-----------------|
| | Goodwill, Gross | Accumulated Impairment Losses | Goodwill, Net | Allocation of Goodwill | Additions to Goodwill | Goodwill |
| (In millions of dollars) | | | | | | |
| Americas Commercial | \$ 40.0 | \$ (16.4) | \$ 23.6 | \$ (23.6) | \$ — | \$ — |
| Americas PT | 37.9 | — | 37.9 | (37.9) | — | — |
| EMEA Commercial | 50.4 | (50.4) | — | — | — | — |
| EMEA PT | 22.0 | (22.0) | — | — | — | — |
| APAC Commercial | 12.1 | (12.1) | — | — | — | — |
| APAC PT | — | — | — | — | — | — |
| OCG | 26.9 | — | 26.9 | (26.9) | — | — |
| Americas Staffing | — | — | — | 25.9 | 18.7 | 44.6 |
| Global Talent Solutions | — | — | — | 62.5 | — | 62.5 |
| International Staffing | — | — | — | — | — | — |
| | <u>\$ 189.3</u> | <u>\$ (100.9)</u> | <u>\$ 88.4</u> | <u>\$ —</u> | <u>\$ 18.7</u> | <u>\$ 107.1</u> |

7. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component, net of tax, for the third quarter and September year to date 2017 and 2016 are included in the tables below. Amounts in parentheses indicate debits. Reclassification adjustments out of accumulated other comprehensive income, as shown in the tables below, were recorded in the other expense, net line item in the consolidated statement of earnings.

| | Third Quarter 2017 | | | |
|--|--|---|-------------------------------|-----------------|
| | Foreign Currency Translation Adjustments | Unrealized Gains and Losses on Investment | Pension Liability Adjustments | Total |
| (In millions of dollars) | | | | |
| Beginning balance | \$ (10.7) | \$ 103.6 | \$ (1.8) | \$ 91.1 |
| Other comprehensive income before reclassifications | 3.4 | 28.8 | — | 32.2 |
| Amounts reclassified from accumulated other comprehensive income | — | — | — | — |
| Net current-period other comprehensive income | 3.4 | 28.8 | — | 32.2 |
| Ending balance | <u>\$ (7.3)</u> | <u>\$ 132.4</u> | <u>\$ (1.8)</u> | <u>\$ 123.3</u> |

KELLY SERVICES, INC. AND SUBSIDIARIES
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| | September Year to Date 2017 | | | |
|--|---|--|----------------------------------|-----------------|
| | Foreign Currency Translation Adjustments | Unrealized Gains and Losses on Investment | Pension Liability Adjustments | Total |
| | (In millions of dollars) | | | |
| Beginning balance | \$ (23.3) | \$ 83.8 | \$ (1.8) | \$ 58.7 |
| Other comprehensive income before reclassifications | 16.0 | 48.6 | — | 64.6 |
| Amounts reclassified from accumulated other comprehensive income | — | — | — | — |
| Net current-period other comprehensive income | 16.0 | 48.6 | — | 64.6 |
| Ending balance | <u>\$ (7.3)</u> | <u>\$ 132.4</u> | <u>\$ (1.8)</u> | <u>\$ 123.3</u> |

| | Third Quarter 2016 | | | |
|--|---|--|----------------------------------|----------------|
| | Foreign Currency Translation Adjustments | Unrealized Gains and Losses on Investment | Pension Liability Adjustments | Total |
| | (In millions of dollars) | | | |
| Beginning balance | \$ (11.6) | \$ 92.4 | \$ (1.6) | \$ 79.2 |
| Other comprehensive income before reclassifications | 1.8 | 1.3 | — | 3.1 |
| Amounts reclassified from accumulated other comprehensive income | 0.2 | — | — | 0.2 |
| Net current-period other comprehensive income | 2.0 | 1.3 | — | 3.3 |
| Ending balance | <u>\$ (9.6)</u> | <u>\$ 93.7</u> | <u>\$ (1.6)</u> | <u>\$ 82.5</u> |

| | September Year to Date 2016 | | | |
|--|---|--|----------------------------------|----------------|
| | Foreign Currency Translation Adjustments | Unrealized Gains and Losses on Investment | Pension Liability Adjustments | Total |
| | (In millions of dollars) | | | |
| Beginning balance | \$ (22.6) | \$ 84.9 | \$ (1.6) | \$ 60.7 |
| Other comprehensive income before reclassifications | 13.1 | 8.8 | — | 21.9 |
| Amounts reclassified from accumulated other comprehensive income | (0.1) | — | — | (0.1) |
| Net current-period other comprehensive income | 13.0 | 8.8 | — | 21.8 |
| Ending balance | <u>\$ (9.6)</u> | <u>\$ 93.7</u> | <u>\$ (1.6)</u> | <u>\$ 82.5</u> |

KELLY SERVICES, INC. AND SUBSIDIARIES
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8. Earnings Per Share

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

| | Third Quarter | | September Year to Date | |
|--|---------------|---------|------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings | \$ 23.0 | \$ 80.9 | \$ 53.9 | \$ 101.0 |
| Less: earnings allocated to participating securities | (0.3) | (1.8) | (0.9) | (2.3) |
| Net earnings available to common shareholders | \$ 22.7 | \$ 79.1 | \$ 53.0 | \$ 98.7 |
| Average shares outstanding (millions): | | | | |
| Basic | 38.3 | 38.1 | 38.3 | 38.0 |
| Dilutive share awards | 0.5 | 0.3 | 0.5 | 0.3 |
| Diluted | 38.8 | 38.4 | 38.8 | 38.3 |
| Basic earnings per share | \$ 0.59 | \$ 2.08 | \$ 1.38 | \$ 2.59 |
| Diluted earnings per share | \$ 0.58 | \$ 2.06 | \$ 1.37 | \$ 2.58 |

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

9. Stock-Based Compensation

For the third quarter 2017 and 2016 , respectively, the Company recognized stock compensation expense of \$2.6 million and \$2.4 million , and related tax benefit of \$1.5 million and \$0.9 million . For September year to date 2017 and 2016 , respectively, the Company recognized stock compensation expense of \$6.8 million and \$7.6 million , and related tax benefit of \$3.3 million and \$2.9 million .

Performance Shares

During 2017, the Company granted performance awards associated with the Company’s Class A stock to certain senior officers. The payment of performance shares, which will be satisfied with the issuance of shares out of treasury stock, is contingent upon the achievement of specific performance goals over a stated period of time. The maximum number of performance shares that may be earned is 200% of the target shares originally granted. These awards have a three -year performance period and will cliff vest after the approval by the Compensation Committee, if not forfeited by the recipient. No dividends are paid on these performance shares.

Financial measure performance goals may be earned upon the achievement of two financial goals and had a weighted average grant date fair value of \$21.07 . For each of the two financial measures, there are annual goals set in February of each year, with the total award payout based on a cumulative average of the 2017, 2018 and 2019 goals. Accordingly, the Company remeasures the fair value of the 2017 and 2016 financial measure performance shares each reporting period until the third year goals are set, after which the fair value will be fixed for the remaining performance period. As of third quarter-end 2017 , for the performance shares granted in 2017 and 2016, the current fair value for the financial measure performance shares was \$24.22 and \$24.29 , respectively.

Total shareholder return (“TSR”) performance shares may be earned based on the Company’s TSR relative to the S&P SmallCap 600 Index. The TSR performance shares have an estimated fair value of \$20.16 , which was computed using a Monte Carlo simulation model incorporating assumptions for inputs of expected stock price volatility, dividend yield and risk-free interest rate.

KELLY SERVICES, INC. AND SUBSIDIARIES
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A summary of the status of all nonvested performance shares at target for September year to date 2017 is presented as follows below (in thousands of shares except per share data). Forfeitures primarily relate to the retirement of the Company's former President and Chief Executive Officer in the second quarter of 2017.

| | Financial Measure Performance Shares | | TSR Performance Shares | |
|-------------------------------------|--------------------------------------|--|------------------------|--|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Nonvested at year-end 2016 | 499 | \$ 19.17 | 208 | \$ 17.49 |
| Granted | 286 | 21.32 | 101 | 20.16 |
| Vested | — | — | — | — |
| Forfeited | (182) | 20.32 | (65) | 18.99 |
| Nonvested at third quarter-end 2017 | 603 | \$ 21.19 | 244 | \$ 18.20 |

Restricted Stock

A summary of the status of nonvested restricted stock as of third quarter-end 2017 and year-to-date changes, is presented as follows below (in thousands of shares except per share data). Forfeitures primarily relate to the retirement of the Company's former President and Chief Executive Officer during the second quarter of 2017.

| | Shares | Weighted Average Grant Date Fair Value |
|--------------------------------------|--------|--|
| Nonvested at year-end 2016 | 653 | \$ 16.58 |
| Granted | 189 | 21.90 |
| Vested | (74) | 17.25 |
| Forfeited | (163) | 16.91 |
| Nonvested at second quarter-end 2017 | 605 | 18.07 |
| Granted | 19 | 21.85 |
| Vested | (164) | 16.73 |
| Forfeited | (2) | 19.82 |
| Nonvested at third quarter-end 2017 | 458 | \$ 18.71 |

10. Other Expense, Net

Included in other expense, net for the third quarter and September year to date 2017 and 2016 are the following:

| | Third Quarter | | September Year to Date | |
|------------------------------|---------------|----------|------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| (In millions of dollars) | | | | |
| Interest income | \$ 0.2 | \$ 0.2 | \$ 0.5 | \$ 0.3 |
| Interest expense | (0.7) | (0.9) | (1.8) | (2.7) |
| Dividend income | — | — | 0.7 | 0.6 |
| Foreign exchange gain (loss) | 0.1 | 0.3 | (1.9) | 0.5 |
| Other expense, net | \$ (0.4) | \$ (0.4) | \$ (2.5) | \$ (1.3) |

KELLY SERVICES, INC. AND SUBSIDIARIES
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11. Income Taxes

Income tax benefit was \$4.1 million (a (22.9)% effective tax rate) for the third quarter of 2017 and income tax expense was \$24.7 million (a 23.4% effective tax rate) for the third quarter of 2016. Income tax expense was \$0.1 million (a 0.2% effective tax rate) for September year to date 2017 and \$28.2 million (a 21.8% effective tax rate) for September year to date 2016. Our tax expense is affected by recurring items, such as the amount of pretax income and its mix by jurisdiction, U.S. work opportunity credits and the change in cash surrender value of non-taxable investments in life insurance policies. It is also affected by discrete items that may occur in any given period but are not consistent from period to period, such as tax law changes, or changes in judgment regarding the realizability of deferred tax assets. Income tax expense in the third quarter of 2017 included a \$5.1 million benefit from the release of a valuation allowance in Germany, while the third quarter of 2016 included a \$23.5 million charge from the gain on the investment in TS Kelly Asia Pacific. For September year to date 2017, income tax expense also benefitted from the release of a valuation allowance in Norway in the second quarter.

12. Contingencies

In the ordinary course of business the Company is the subject of, or party to, various pending or threatened legal actions which could result in a material adverse outcome for which the related damages may not be estimable. As previously disclosed, the Company entered into a settlement with plaintiffs in *Hillson et. al. v Kelly Services* in order to avoid the cost of continued litigation. On August 17, 2017, the District Court approved the settlement and entered a Final Order of Judgment and Dismissal. The Company made the final payment, which was accrued in 2015, on September 19, 2017.

In addition, the Company is continuously engaged in litigation arising in the ordinary course of its business, such as matters alleging employment discrimination, alleging wage and hour violations, or enforcing the restrictive covenants in the Company's employment agreements. There are matters that are currently stayed pending a decision from the Supreme Court of the United States on whether the Company's arbitration provision is enforceable. We record accruals for loss contingencies when we believe it is probable that liability has been incurred and the amount of loss can be reasonably estimated. Such accruals are recorded in accounts payable and accrued liabilities on the consolidated balance sheet. While the ultimate outcome of these matters cannot be predicted with certainty, we believe that the resolution of any such proceedings will not have a material adverse effect on our financial condition, results of operations or cash flows.

13. Segment Disclosures

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

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

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

Corporate expenses that directly support the operating units have been allocated to Americas Staffing, GTS and International Staffing based on work effort, volume or, in the absence of a readily available measurement process, proportionately based on gross profit realized. In connection with the realignment of the segment structure, we reassessed the allocation of corporate

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expenses to the operating segments and updated the allocation method for corporate expenses which do not have a readily available measurement from revenue to gross profit. Prior periods have been recast to reflect the current period allocation method. The update had no impact on the consolidated financial information.

The following tables present information about the reported revenue from services and gross profit of the Company by segment, along with a reconciliation to consolidated earnings before taxes and equity in net earnings (loss) of affiliate, for the third quarter and September year to date 2017 and 2016 . Asset information by reportable segment is not presented, since the Company does not produce such information internally nor does it use such data to manage its business.

| | Third Quarter | | September Year to Date | |
|----------------------------|--------------------------|------------|------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions of dollars) | | | |
| Revenue from Services: | | | | |
| Americas Staffing | \$ 554.8 | \$ 518.2 | \$ 1,703.5 | \$ 1,614.7 |
| Global Talent Solutions | 503.0 | 495.0 | 1,495.8 | 1,486.5 |
| International Staffing | 275.6 | 239.3 | 766.0 | 885.6 |
| Less: Intersegment revenue | (4.6) | (4.7) | (13.2) | (14.4) |
| Consolidated Total | \$ 1,328.8 | \$ 1,247.8 | \$ 3,952.1 | \$ 3,972.4 |

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| | Third Quarter | | September Year to Date | |
|--|---------------|----------|------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| (In millions of dollars) | | | | |
| Earnings from Operations: | | | | |
| Americas Staffing gross profit | \$ 98.8 | \$ 95.0 | \$ 307.9 | \$ 292.9 |
| Americas Staffing SG&A expenses | (85.5) | (80.7) | (253.0) | (245.9) |
| Americas Staffing Earnings from Operations | 13.3 | 14.3 | 54.9 | 47.0 |
| Global Talent Solutions gross profit | 93.0 | 86.2 | 272.2 | 257.2 |
| Global Talent Solutions SG&A expenses | (72.2) | (70.2) | (220.8) | (213.6) |
| Global Talent Solutions Earnings from Operations | 20.8 | 16.0 | 51.4 | 43.6 |
| International Staffing gross profit | 39.5 | 35.0 | 112.7 | 131.4 |
| International Staffing SG&A expenses | (32.3) | (30.5) | (96.2) | (116.3) |
| International Staffing Earnings from Operations | 7.2 | 4.5 | 16.5 | 15.1 |
| Less: Intersegment gross profit | (0.6) | (1.1) | (1.7) | (3.2) |
| Less: Intersegment SG&A expenses | 0.6 | 1.1 | 1.7 | 3.2 |
| Net Intersegment Activity | — | — | — | — |
| Corporate | (23.1) | (16.0) | (67.9) | (62.3) |
| Consolidated Total | 18.2 | 18.8 | 54.9 | 43.4 |
| Gain on investment in TS Kelly Asia Pacific | — | 87.2 | — | 87.2 |
| Other Expense, Net | (0.4) | (0.4) | (2.5) | (1.3) |
| Earnings before taxes and equity in net earnings (loss) of affiliate | \$ 17.8 | \$ 105.6 | \$ 52.4 | \$ 129.3 |

14. New Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-09 clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. It does not change the accounting for modifications. The ASU is effective prospectively for reporting periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. We do not expect the adoption of this ASU will have a material impact on our consolidated financial statements.

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

In November 2016, the FASB issued ASU 2016-18 amending the presentation of restricted cash within the statement of cash flows. The new guidance requires that restricted cash be included within cash and cash equivalents on the statement of cash flows. The ASU is effective retrospectively for reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact of the new guidance and we do not expect it to have a material impact on our consolidated financial statements.

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

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

In March 2016, the FASB issued ASU 2016-09 amending several aspects of share-based payment accounting. This guidance requires all excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled, with prospective application required. The guidance also changes the classification of such tax benefits or tax deficiencies on the statement of cash flows from a financing activity to an operating activity, with retrospective or prospective application allowed. Additionally, the guidance requires the classification of employee taxes paid when an employer withholds shares for tax-withholding purposes as a financing activity on the statement of cash flows, with retrospective application required. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. We adopted this guidance effective January 2, 2017, and the adoption did not have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 amending the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability will initially be measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S. GAAP, the presentation of expenses and cash flows will depend primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization's leasing activities. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and requires modified retrospective application. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. As our branch operations are primarily conducted in leased facilities, this ASU will likely have a material impact on our consolidated balance sheet, may have a material impact to our consolidated statement of earnings and will require us to disclose additional information about our leasing activities. We established a cross-functional implementation team to further assess the impact of the standard.

In January 2016, the FASB issued ASU 2016-01 amending the current guidance for how entities measure certain equity investments, the accounting for financial liabilities under the fair value option, and the presentation and disclosure requirements relating to financial instruments. The new guidance requires entities to use fair value measurement for equity investments in unconsolidated entities, excluding equity method investments, and to recognize the changes in fair value in net income at the end of each reporting period. Under the new standard, for any financial liabilities in which the fair value option has been elected, the changes in fair value due to instrument-specific credit risk must be recognized separately in other comprehensive income. Presentation and disclosure requirements under the new guidance require public business entities to use the exit price when measuring the fair value of financial instruments measured at amortized cost. In addition, financial assets and liabilities must now be presented separately in the notes to the financial statements and grouped by measurement category and form of financial asset. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after

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December 15, 2017. Early adoption is only permitted for the financial liability provision. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. We expect to implement the standard with the modified retrospective method and the cumulative reclassification adjustment between other comprehensive income and retained earnings on the consolidated balance sheet is expected to be material. This standard will impact how we recognize changes in the fair value of our available-for-sale investment and could have a material impact on our consolidated financial statements.

In May 2014, the FASB issued new revenue recognition guidance under ASU 2014-09 that will supersede the existing revenue recognition guidance under U.S. GAAP. The new standard focuses on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of the new standard is for companies to recognize revenue when it transfers the promised goods or services to its customers at an amount that represents what the company expects to be entitled to in exchange for those goods or services. In July 2015, the FASB deferred the effective date by one year (ASU 2015-14). This ASU will now be effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2017. Since the issuance of the original standard, the FASB has issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12); and 5) technical corrections and improvements (ASU 2016-20). The new standard will be effective for us beginning January 1, 2018.

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

We have been closely monitoring FASB activity related to the new standard to conclude on specific interpretive issues. During 2016 and 2017, we have made significant progress toward completing our evaluation of the potential impact that adopting the new standard will have on our consolidated financial statements. Based on our preliminary analysis, revenue from our temporary staffing contracts and substantially all of our other contracts with customers will continue to be recognized over time as services are rendered. The primary impact of adopting ASU 2014-09 is anticipated to be the deferral of contract costs. Additionally, we anticipate expanded disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from our contracts with customers. We will continue to evaluate the impact of this guidance on our consolidated financial statements, disclosures and internal controls. Our preliminary assessments are subject to change. We expect to implement the standard with the modified retrospective approach beginning January 1, 2018, which recognizes the cumulative effect of application recognized on that date.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

The Workforce Solutions Industry

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

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

Strategic clients are increasingly looking for global, flexible and holistic talent solutions that encompass all worker categories, driving adoption of our TSCM approach covering temporary staffing, Contingent Workforce Outsourcing ("CWO"), Recruitment Process Outsourcing ("RPO"), Business Process Outsourcing ("BPO"), independent contractor management, strategic workforce planning and more. Across all regions, the structural shifts toward higher-skilled, project-based specialized talent continue to represent long-term opportunities for the industry.

Our Business

Kelly Services is a global workforce solutions company, serving customers of all sizes in a variety of industries. In July 2016, we expanded our joint venture with Persol Holdings (formerly Temp Holdings) to form TS Kelly Asia Pacific (the "JV") and moved our APAC staffing operations into the JV. In early 2017, we restructured components of our previous Americas Commercial, Americas PT and OCG segments under a single delivery organization, triggering a change in our operating structure. We now provide staffing through our branch networks in our Americas and International operations, with commercial and specialized professional/technical staffing businesses in each region. We also provide a suite of innovative talent fulfillment and outcome-based solutions through our Global Talent Solutions ("GTS") segment, which delivers integrated talent management solutions to meet customer needs across the entire spectrum of talent categories. Using talent supply chain strategies, GTS helps customers plan for, manage and execute their acquisition of contingent labor, full-time labor and free agents, and gain access to service providers and quality talent at competitive rates with minimized risk.

We earn revenues from the hourly sales of services by our temporary employees to customers, as a result of recruiting permanent employees for our customers, and through our outsourcing activities. Our working capital requirements are primarily generated from temporary employee payroll and customer accounts receivable. The nature of our business is such that trade accounts receivable are our most significant financial asset. Average days sales outstanding varies within and outside the U.S., but was 58 days on a global basis as of the 2017 third quarter end, 53 days as of the 2016 year end and 56 days as of the 2016 third quarter end. Since receipts from customers generally lag temporary employee payroll, working capital requirements increase substantially in periods of growth.

Our Strategy and Outlook

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

- Continue to build our core strengths in branch-delivered staffing in key markets;
- Maintain our position as a market-leading provider of talent supply chain management in our GTS segment; and
- Lower our costs through deployment of efficient service delivery models.

Our 2017 third quarter results affirm that we are focused on accelerating our progress by continuing to deliver profits and positioning our operations to capitalize on market opportunities. We also completed our acquisition of Teachers On Call, which builds on our strength in the educational staffing market in the U.S.

- Earnings from operations for the third quarter of 2017 totaled \$18.2 million, compared to \$18.8 million in the third quarter of 2016. The conversion rate for the third quarter was 7.9%, compared to 8.7% in the same period last year.
- In the Americas Staffing segment, revenue grew 7% year over year, and earnings from operations were \$13.3 million, compared to \$14.3 million in the third quarter last year.

- The GTS segment delivered 8% gross profit growth and 30% earnings from operations growth year over year.
- In the International Staffing segment, year-over-year revenue improved 15%, or 10% in constant currency, as the segment delivered strong growth across Europe.

Kelly remains focused on executing a well-formed strategy with increased speed and precision, making the necessary investments and adjustments to advance that strategy. We have set our sights on becoming an even more competitive, consultative and profitable company, and we are reshaping our business to make that vision a reality. We will measure our progress against both revenue and gross profit growth, and we expect to improve our conversion rate. The goals we have established are based on the current economic and business environment, and may change as conditions warrant. We expect:

- To grow professional and technical specialty and outsourced solutions, creating a more balanced portfolio that yields benefits from an improved mix;
- Locally delivered staffing to remain a core component of our strategy;
- Kelly Educational Staffing, including Teachers On Call, to continue to be a market leader in the U.S.;
- To exercise strict expense control, delivering structural improvements that ensure a return from our investments in delivery infrastructure and, as a result;
- Our conversion rate to continue to improve.

Looking ahead, we are keeping a watchful eye on the global market while anticipating an increasing demand for skilled workers. We know that companies are relying more heavily on the use of flexible staffing models; there is growing acceptance of free agents and contractual employment by companies and talent alike; and companies are seeking more comprehensive workforce management solutions that lend themselves to Kelly's wide range of human resources solutions. This shift in demand for contingent labor and strategic solutions plays to our strengths and experience.

Financial Measures

The constant currency (“CC”) change amounts in the following tables refer to the year-over-year percentage changes resulting from translating 2017 financial data into U.S. dollars using the same foreign currency exchange rates used to translate financial data for 2016. We believe that CC measurements are a useful measure, indicating the actual trends of our operations without distortion due to currency fluctuations. We use CC results when analyzing the performance of our segments and measuring our results against those of our competitors. Additionally, substantially all of our foreign subsidiaries derive revenues and incur cost of services and SG&A within a single country and currency which, as a result, provides a natural hedge against currency risks in connection with their normal business operations.

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

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

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

Staffing Fee-Based Income

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

Results of Operations
Total Company - Third Quarter
(Dollars in millions)

| | 2017 | 2016 | Change | CC Change |
|---|------------|------------|----------|--------------|
| Revenue from services | \$ 1,328.8 | \$ 1,247.8 | 6.5% | 5.3% |
| Gross profit | 230.7 | 215.1 | 7.3 | 6.2 |
| Total SG&A expenses | 212.5 | 196.3 | 8.3 | 7.3 |
| Earnings from operations | 18.2 | 18.8 | (2.9) | |
| Staffing fee-based income (included in revenue from services) | 14.2 | 13.2 | 6.9 | 4.1 |
| Gross profit rate | 17.4% | 17.2% | 0.2 pts. | |
| Conversion rate | 7.9 | 8.7 | (0.8) | |
| Return on sales | 1.4 | 1.5 | (0.1) | |

Total Company revenue from services for the third quarter of 2017 was up 6.5% (5.3% on a CC basis) in comparison to the prior year. During the third quarter of 2017, the U.S. dollar weakened against certain currencies, primarily the Euro and the Russian ruble, resulting in the CC impact of 120 basis points. The increase in revenue from last year was primarily due to strong growth in locally delivered staffing business in the Americas Staffing and International Staffing segments. Additionally, the acquisition of Teachers On Call (“TOC”) during the third quarter of 2017 added approximately 30 basis points to the total revenue growth rate.

The gross profit rate increased by 20 basis points, reflecting an increase from higher margin solutions in the GTS segment, partially offset by decreases from the impact of margin rate erosion in the Americas Staffing and International Staffing segments due to changes in business mix.

Total SG&A expenses increased 8.3% on a reported basis. SG&A growth in the operating segments reflect investments to capitalize on market opportunities within the locally delivered staffing business in the U.S. and international markets, along with higher incentive-based compensation. These increases were partially offset by the effect of an out-of-period adjustment relating to overstated expense accruals. Corporate expenses increased year over year, reflecting a return to normalized levels of performance-based compensation expenses, along with increased legal expenses.

Americas Staffing - Third Quarter
(Dollars in millions)

| | 2017 | 2016 | Change | CC Change |
|--------------------------|-------------|-------------|---------------|----------------------|
| Revenue from services | \$ 554.8 | \$ 518.2 | 7.1% | 6.6% |
| Gross profit | 98.8 | 95.0 | 4.1 | 3.7 |
| Total SG&A expenses | 85.5 | 80.7 | 6.0 | 5.6 |
| Earnings from operations | 13.3 | 14.3 | (6.7) | |
| Gross profit rate | 17.8% | 18.3% | (0.5) pts. | |
| Conversion rate | 13.5 | 15.0 | (1.5) | |
| Return on sales | 2.4 | 2.8 | (0.4) | |

The change in Americas Staffing revenue from services reflect the increase in average bill rates. Hours volume was flat in comparison to the prior year. The increase in average bill rates was the result of wage increases, which are passed through to customers. Americas Staffing represented 42% of total Company revenue in the third quarter of 2017 and 2016.

Revenue increased in our light industrial, educational staffing business, science, finance and office clerical products.

The decrease in the Americas Staffing gross profit rate was primarily due to business mix, with higher growth in light industrial, which has a lower gross profit rate than other products in this segment.

Total SG&A expenses increased compared to the prior year, due to additional sales and recruiting resources to capture growing demand and higher performance-based compensation.

GTS - Third Quarter
(Dollars in millions)

| | 2017 | 2016 | Change | CC Change |
|--------------------------|----------|----------|----------|--------------|
| Revenue from services | \$ 503.0 | \$ 495.0 | 1.6% | 1.3% |
| Gross profit | 93.0 | 86.2 | 7.9 | 7.6 |
| Total SG&A expenses | 72.2 | 70.2 | 2.8 | 2.5 |
| Earnings from operations | 20.8 | 16.0 | 30.3 | |
| Gross profit rate | 18.5% | 17.4% | 1.1 pts. | |
| Conversion rate | 22.4 | 18.5 | 3.9 | |
| Return on sales | 4.1 | 3.2 | 0.9 | |

GTS revenue represented 38% of total Company revenue in the third quarter of 2017 and 40% in the third quarter of 2016. Revenue from services was up 1.6% compared to last year. Revenue increases in KellyConnect, BPO and CWO practices were partially offset by declines in our centrally delivered staffing business and payroll business.

The increase in the GTS gross profit rate was due to favorable practice and customer mix, as well as lower workers' compensation costs.

Total SG&A expenses increased 2.8% from the prior year. The increase is primarily due to increases in performance-based incentive costs, coupled with headcount and salary costs related to additional programs. These increases are partially offset by cost reductions resulting from our services delivery optimization initiative in our talent fulfillment business which we undertook in the first quarter of 2017 in line with demand, and the effect of an out-of-period adjustment relating to overstated expense accruals.

International Staffing - Third Quarter
(Dollars in millions)

| | 2017 | 2016 | Change | CC Change |
|--------------------------|----------|----------|------------|--------------|
| Revenue from services | \$ 275.6 | \$ 239.3 | 15.2 % | 10.4% |
| Gross profit | 39.5 | 35.0 | 12.7 | 7.7 |
| Total SG&A expenses | 32.3 | 30.5 | 6.1 | 1.9 |
| Earnings from operations | 7.2 | 4.5 | 57.0 | |
| Gross profit rate | 14.3% | 14.7% | (0.4) pts. | |
| Conversion rate | 18.0 | 12.9 | 5.1 | |
| Return on sales | 2.6 | 1.9 | 0.7 | |

International Staffing revenue from services increased 15.2%, of which 4.8% related to changes in foreign currency exchange rates. The remainder of the increase was due to an 8% increase in hours volume from our European operations, combined with a 7% increase in average bill rates (a 3% increase on a CC basis). The increase in hours volume was due to Portugal and France. International Staffing represented 21% of total Company revenue in the third quarter of 2017 and 19% in the third quarter of 2016.

The International Staffing gross profit rate decreased primarily due to a decline in the temporary gross profit rate from change in customer mix.

Total SG&A expenses increased 6.1% on a reported basis primarily due to the impact of changes in foreign currency exchange rates and ongoing investments in recruiters in our branch network.

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

| | 2017 | 2016 | Change | CC Change |
|---|------------|------------|----------|--------------|
| Revenue from services | \$ 3,952.1 | \$ 3,972.4 | (0.5)% | (0.7)% |
| Gross profit | 691.1 | 678.3 | 1.9 | 1.7 |
| SG&A expenses excluding restructuring charges | 633.8 | 631.5 | 0.4 | 0.3 |
| Restructuring charges | 2.4 | 3.4 | (31.6) | (31.2) |
| Total SG&A expenses | 636.2 | 634.9 | 0.2 | 0.1 |
| Earnings from operations | 54.9 | 43.4 | 26.5 | |
| Earnings from operations excluding restructuring charges | 57.3 | 46.8 | 22.2 | |
| Staffing fee-based income (included in revenue from services) | 41.4 | 46.3 | (10.8) | (11.7) |
| Gross profit rate | 17.5% | 17.1% | 0.4 pts. | |
| Conversion rate | 7.9 | 6.4 | 1.5 | |
| Conversion rate excluding restructuring charges | 8.3 | 6.9 | 1.4 | |
| Return on sales | 1.4 | 1.1 | 0.3 | |
| Return on sales excluding restructuring charges | 1.4 | 1.2 | 0.2 | |

During the third quarter of 2016, we transferred our APAC staffing business in exchange for a 49% interest in the TS Kelly Asia Pacific joint venture. As a result, for the first six months of 2017, year-over-year revenue comparisons were negatively impacted. Total Company revenue from services for the first nine months of 2017 was down 0.5% in comparison to the prior year. The decrease was due to the effect of the transfer of the APAC staffing operations, as well as the changes noted in the following Americas Staffing and GTS segment discussions.

The gross profit rate increased by 40 basis points. As noted in the following discussions, an increase in the GTS gross profit rate was partially offset by a decrease in the International Staffing rate, while the Americas Staffing rate was flat year over year.

Total SG&A expenses increased 0.2% on a reported basis. Year-over-year increases in SG&A expenses in Americas Staffing and GTS reflect higher incentive-based compensation in those segments, while the transfer of the APAC staffing operations resulted in a decrease in International Staffing SG&A expenses. Corporate expenses increased due primarily to higher incentive-based compensation. Included in total SG&A expenses for the first nine months of 2017 are restructuring charges of \$2.4 million, relating primarily to an initiative to optimize our GTS service delivery models. Included in total SG&A expenses for the first nine months of 2016 are restructuring charges of \$3.4 million, which relate to actions taken primarily in the Americas Staffing and International Staffing segments to increase operational efficiency and prepare the businesses for future growth.

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

| | 2017 | 2016 | Change | CC Change |
|--|------------|------------|--------|--------------|
| Revenue from services | \$ 1,703.5 | \$ 1,614.7 | 5.5% | 5.3% |
| Gross profit | 307.9 | 292.9 | 5.1 | 5.0 |
| SG&A expenses excluding restructuring charges | 252.6 | 244.1 | 3.5 | 3.4 |
| Restructuring charges | 0.4 | 1.8 | (80.0) | (79.8) |
| Total SG&A expenses | 253.0 | 245.9 | 2.9 | 2.8 |
| Earnings from operations | 54.9 | 47.0 | 16.8 | |
| Earnings from operations excluding restructuring charges | 55.3 | 48.8 | 13.2 | |
| Gross profit rate | 18.1% | 18.1% | — | pts. |
| Conversion rate | 17.8 | 16.1 | 1.7 | |
| Conversion rate excluding restructuring charges | 18.0 | 16.7 | 1.3 | |
| Return on sales | 3.2 | 2.9 | 0.3 | |
| Return on sales excluding restructuring charges | 3.2 | 3.0 | 0.2 | |

The change in Americas Staffing revenue from services reflects a 6% increase in average bill rates, partially offset by a 1% decrease in hours volume. The increase in average bill rates was the result of wage increases and stronger revenue growth in our service lines with higher pay rates. Americas Staffing represented 43% of total Company revenue in the first nine months of 2017 and 41% in the first nine months of 2016.

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

The Americas Staffing gross profit rate was flat in comparison to the prior year. Decreases in the rate due to business mix were offset by lower employee-related costs, including workers' compensation costs.

Total SG&A expenses increased 2.9% year over year, due to higher performance-based compensation costs and additional sales and recruiting resources to capture growing demand. Included in total SG&A expenses for the first nine months of 2016 are restructuring charges of \$1.8 million, which represent severance costs related to headcount reductions as well as lease buyout costs due to branch consolidations.

GTS - September Year to Date
(Dollars in millions)

| | 2017 | 2016 | Change | CC Change |
|--|-------------|-------------|---------------|----------------------|
| Revenue from services | \$ 1,495.8 | \$ 1,486.5 | 0.6% | 0.6% |
| Gross profit | 272.2 | 257.2 | 5.8 | 5.9 |
| SG&A expenses excluding restructuring charges | 218.8 | 213.2 | 2.6 | 2.7 |
| Restructuring charges | 2.0 | 0.4 | 415.5 | 417.6 |
| Total SG&A expenses | 220.8 | 213.6 | 3.4 | 3.5 |
| Earnings from operations | 51.4 | 43.6 | 18.0 | |
| Earnings from operations excluding restructuring charges | 53.4 | 44.0 | 21.5 | |
| Gross profit rate | 18.2% | 17.3% | 0.9 pts. | |
| Conversion rate | 18.9 | 16.9 | 2.0 | |
| Conversion rate excluding restructuring charges | 19.6 | 17.1 | 2.5 | |
| Return on sales | 3.4 | 2.9 | 0.5 | |
| Return on sales excluding restructuring charges | 3.6 | 3.0 | 0.6 | |

GTS revenue represented 38% of total Company revenue in the first nine months of 2017 and 37% in the first nine months of 2016. Revenue from services was nearly flat compared to last year. Revenue increases in KellyConnect, BPO and CWO practices were offset by declines in our centrally delivered staffing and payroll business.

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

Total SG&A expenses increased 3.4% from the prior year. Included in total SG&A expenses for the first nine months of 2017 are restructuring charges of \$2.0 million, representing severance relating to an initiative to optimize our service delivery models in this segment, in line with the evolution of demand. The remaining cost increase is due to headcount and salary costs related to additional and expanding programs, coupled with additional performance-based incentive costs.

International Staffing - September Year to Date
(Dollars in millions)

| | 2017 | 2016 | Change | CC Change |
|--|----------|----------|------------|--------------|
| Revenue from services | \$ 766.0 | \$ 885.6 | (13.5)% | (14.0)% |
| Gross profit | 112.7 | 131.4 | (14.2) | (14.8) |
| SG&A expenses excluding restructuring charges | 96.2 | 115.1 | (16.4) | (16.8) |
| Restructuring charges | — | 1.2 | (100.0) | (100.0) |
| Total SG&A expenses | 96.2 | 116.3 | (17.2) | (17.6) |
| Earnings from operations | 16.5 | 15.1 | 9.1 | |
| Earnings from operations excluding restructuring charges | 16.5 | 16.3 | 1.6 | |
| Gross profit rate | 14.7% | 14.8% | (0.1) pts. | |
| Conversion rate | 14.6 | 11.5 | 3.1 | |
| Conversion rate excluding restructuring charges | 14.6 | 12.3 | 2.3 | |
| Return on sales | 2.2 | 1.7 | 0.5 | |
| Return on sales excluding restructuring charges | 2.2 | 1.8 | 0.4 | |

International Staffing includes the Company's APAC region staffing business prior to the transaction to form the TS Kelly Asia Pacific joint venture in the third quarter of 2016, resulting in a 23% decrease in International Staffing revenue from services. This decrease, partially offset by a 9% increase in hours volume and 1% increase in average bill rates from our European operations, accounted for the change in revenue from services. The increase in hours volume was due to Portugal, Russia and France, and the increase in average bill rates was due to country mix. International Staffing represented 19% of total Company revenue in the first nine months of 2017 and 22% in the first nine months of 2016.

The decline in the gross profit rate from the prior year is due to change in customer mix.

Total SG&A expenses decreased 17.2% on a reported basis, due primarily to the transfer of the APAC staffing business. Included in total SG&A expenses for the first nine months of 2016 are restructuring charges of \$1.2 million. These charges reflect a repositioning of the operating model to pursue growth in staffing fee-based income and specialized temporary staffing business in Italy.

Financial Condition

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

Cash and Equivalents

Cash and equivalents totaled \$22.2 million at the end of the third quarter of 2017 and \$29.6 million at year-end 2016 . As further described below, we generated \$32.9 million of cash from operating activities, used \$51.3 million of cash for investing activities and generated \$13.4 million of cash from financing activities.

Operating Activities

In the first nine months of 2017 , we generated \$32.9 million of net cash from operating activities, as compared to generating \$28.2 million in the first nine months of 2016 . This change was primarily driven by a decrease in compensation-related payments, partially offset by the impact of higher DSO as discussed below.

Trade accounts receivable totaled \$1.3 billion at the end of the third quarter of 2017 . Global DSO were 58 days at the end of the third quarter of 2017 and 56 at the end of the third quarter of 2016 . The increase of DSO by two days is due primarily to seasonality, including the impact of the seasonal increase in the educational staffing business in addition to customer mix.

Our working capital position (total current assets less total current liabilities) was \$445.7 million at the end of the third quarter of 2017 , an increase of \$2.2 million from year-end 2016 . The current ratio (total current assets divided by total current liabilities) was 1.5 at the end of the third quarter of 2017 and 1.6 at year-end 2016 .

Investing Activities

In the first nine months of 2017 , we used \$51.3 million of cash for investing activities, as compared to generating \$10.6 million in the first nine months of 2016 . Included in cash used for investing activities in the first nine months of 2017 is \$37.2 million for the acquisition of Teachers On Call, net of the cash received. Included in cash from investing activities in the first nine months of 2016 is \$18.8 million of net cash representing the cash received less the cash deconsolidated relating to the TS Kelly Asia Pacific joint venture transaction. The year-over-year increase in capital expenditures is due to higher spending for technology programs, IT infrastructure and headquarters building improvements in the first nine months of 2017 as compared to last year.

Financing Activities

In the first nine months of 2017 , we generated \$13.4 million of cash from financing activities, as compared to using \$57.2 million in the first nine months of 2016 . The change in cash used in financing activities was related to short-term borrowing activities. Debt totaled \$23.9 million at the end of the third quarter of 2017 and was zero at year-end 2016 . Debt-to-total capital (total debt reported on the balance sheet divided by total debt plus stockholders' equity) is a common ratio to measure the relative capital structure and leverage of the Company. Our ratio of debt-to-total capital was 2.1% at the end of the third quarter of 2017 and 0.0% at year-end 2016 .

The change in short-term borrowings in the first nine months of 2017 was primarily due to borrowings on our revolving credit facility. The net change in short-term borrowings in the first nine months of 2016 was primarily due to payments on our U.S. securitization facility.

We made dividend payments of \$8.7 million in the first nine months of 2017 and \$7.7 million in the first nine months of 2016 .

New Accounting Pronouncements

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

Contractual Obligations and Commercial Commitments

There are no material changes in our obligations and commitments to make future payments from those included in the Company's Annual Report on Form 10-K filed February 17, 2017. We have no material unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities.

Liquidity

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

We utilize intercompany loans, dividends, capital contributions and redemptions to effectively manage our cash on a global basis. We periodically review our foreign subsidiaries' cash balances and projected cash needs. As part of those reviews, we may identify cash that we feel should be repatriated to optimize the Company's overall capital structure. As of the 2017 third quarter end, these reviews have not resulted in any specific plans to repatriate a majority of our international cash balances. We expect much of our international cash will be needed to fund working capital growth in our local operations. The majority of our international cash is concentrated in a cash pooling arrangement (the "Cash Pool") and is available to fund general corporate needs internationally. The Cash Pool is a set of cash accounts maintained with a single bank that must, as a whole, maintain at least a zero balance; individual accounts may be positive or negative. This allows countries with excess cash to invest and countries with cash needs to utilize the excess cash.

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

As of the end of the third quarter of 2017, we had \$126.8 million of available capacity on our \$150.0 million revolving credit facility and \$149.3 million of available capacity on our \$200.0 million securitization facility. The securitization facility carried no short-term borrowings and \$50.7 million of standby letters of credit related to workers' compensation. Together, the revolving credit and securitization facilities provide the Company with committed funding capacity that may be used for general corporate purposes. While we believe these facilities will cover our working capital needs over the short term, if economic conditions or operating results change significantly, we may need to seek additional sources of funds. As of the end of the third quarter of 2017, we met the debt covenants related to our revolving credit facility and securitization facility.

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

Forward-Looking Statements

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

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, competitive market pressures including pricing and technology introductions and disruptions, changing market and economic conditions, our ability to achieve our business strategy, the risk of damage to our brand, the risk our intellectual property assets could be infringed upon or compromised, our ability to successfully develop new service offerings, our exposure to risks associated with services outside traditional staffing, including business process outsourcing, our increasing dependency on third parties for the execution of critical functions, the risks associated with past and future acquisitions, exposure to risks associated with investments in equity affiliates including TS Kelly Asia Pacific, material changes in demand from or loss of large corporate customers as well as changes in their buying practices, risks associated with conducting business in foreign countries, including foreign currency fluctuations, availability of full-time employees to lead complex talent supply chain sales and operations, availability of temporary workers with appropriate skills required by customers, liabilities for employment-related claims and losses, including class action lawsuits and collective actions, risks arising from failure to preserve the privacy of information entrusted to us or to meet our obligations under global privacy laws, the risk of cyber attacks or other breaches of network or information technology security, our ability to sustain critical business applications through our key data centers, our ability to effectively implement and manage our information technology programs, our ability to maintain adequate financial and management processes and controls, impairment charges triggered by adverse industry developments or operational circumstances, unexpected changes in claim trends on workers’ compensation, unemployment compensation, disability and medical benefit plans, the impact of changes in laws and regulations (including federal, state and international tax laws), the risk of additional tax or unclaimed property liabilities in excess of our estimates, our ability to maintain specified financial covenants in our bank facilities to continue to access credit markets, and other risks, uncertainties and factors discussed in this report and in our other filings with the Securities and Exchange Commission. Actual results may differ materially from any forward looking statements contained herein, and we have no intention to update these statements. Certain risk factors are discussed more fully under “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

In addition, we are exposed to interest rate risks through our use of the multi-currency line of credit and other borrowings. A hypothetical fluctuation of 10% of market interest rates would not have had a material impact on 2017 third quarter earnings.

Marketable equity investments, representing our investment in Persol Holdings, are stated at fair value and marked to market through stockholders’ equity, net of tax. Impairments in value below historical cost, if any, deemed to be other than temporary, would be expensed in the consolidated statement of earnings. See the Fair Value Measurements footnote in the Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q for further discussion.

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

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

Item 4. Controls and Procedures.

Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective at a reasonable assurance level.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of business the Company is the subject of, or party to, various pending or threatened legal actions which could result in a material adverse outcome for which the related damages may not be estimable. As previously disclosed, the Company entered into a settlement with plaintiffs in *Hillson et. al. v Kelly Services* in order to avoid the cost of continued litigation. On August 17, 2017, the District Court approved the settlement and entered a Final Order of Judgment and Dismissal. The Company made the final payment, which was accrued in 2015, on September 19, 2017.

In addition, the Company is continuously engaged in litigation arising in the ordinary course of its business, such as matters alleging employment discrimination, alleging wage and hour violations, or enforcing the restrictive covenants in the Company's employment agreements. There are matters that are currently stayed pending a decision from the Supreme Court of the United States on whether the Company's arbitration provision is enforceable. We record accruals for loss contingencies when we believe it is probable that liability has been incurred and the amount of loss can be reasonably estimated. Such accruals are recorded in accounts payable and accrued liabilities on the consolidated balance sheet. While the ultimate outcome of these matters cannot be predicted with certainty, we believe that the resolution of any such proceedings will not have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

There have been no material changes in the Company's risk factors disclosed in Part I, Item 1A of the Company's Annual Report filed on Form 10-K for year ended January 1, 2017 .

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

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

None.

(c) Issuer Repurchases of Equity Securities

During the third quarter of 2017, we reacquired shares of our Class A common stock as follows:

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (in millions of dollars) |
|---|---|--|---|--|
| July 3, 2017 through August 6, 2017 | 111 | \$ 23.24 | — | \$ — |
| August 7, 2017 through September 3, 2017 | 3,944 | 21.46 | — | \$ — |
| September 4, 2017 through October 1, 2017 | 44,027 | 25.06 | — | \$ — |
| Total | 48,082 | \$ 24.76 | — | — |

We may reacquire shares sold to cover taxes due upon the vesting of restricted stock held by employees. Accordingly, 48,082 shares were reacquired in transactions during the quarter.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 38 of this filing.

SIGNATURES

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

KELLY SERVICES, INC.

Date: November 8, 2017

/s/ Olivier G. Thiot
Olivier G. Thiot

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

Date: November 8, 2017

/s/ Laura S. Lockhart
Laura S. Lockhart

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

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

| <u>Exhibit No.</u> | <u>Description</u> |
|----------------------|---|
| 14 | Code of Business Conduct and Ethics, adopted August 7, 2017. |
| 31.1 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended. |
| 31.2 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

KELLY SERVICES, INC.**CODE OF BUSINESS CONDUCT AND ETHICS****August 7, 2017**

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

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

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

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

Conflict of Interest

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

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

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

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

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

Anti-Bribery/Anti-Corruption

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

Insider Trading

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

Corporate Opportunities

Each of us has a responsibility to the Company to advance its legitimate interests.

We must not:

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

Confidentiality and Privacy

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

Confidential and private information includes personal data, as well as Company information that has not been made public, such as business plans, research or strategies, and inside financial information that could be used for personal

gain. The Company's Corporate Disclosure and Communications Policy contains additional details about external communications and the proper sharing of Company information.

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

Protection and Proper Use of Company Assets

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

Fair Dealing

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

Behavior in the Workplace

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

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

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

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

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

Kelly believes that violence in the workplace is unacceptable. In order to help protect our co-workers and ourselves, we have an obligation to immediately report any situation involving violence, threats, bullying, or intimidation. If

you have concerns about the immediate safety of yourself or others, please contact local authorities before reporting the situation internally.

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

Compliance with Laws, Rules and Regulations

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

Risk Tolerance

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

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

Anti-Human Trafficking

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

Reporting Dishonest or Unethical Behavior

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

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

Public Company Reporting

The Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer, and their designees (the "senior financial officers") have the additional responsibility to file with the U.S. Securities and Exchange Commission full, fair, timely, and understandable reports and documents. In addition to the reporting requirements

set forth elsewhere in this Code, senior financial officers must report any known or suspected violations of the Code to the Audit Committee.

Global Policies

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

- Anti-Bribery Training
- Code of Business Conduct and Ethics
- Corporate Disclosure and Communications
- Corporate Social Responsibility <http://kellyservices.com/Global/Corporate-Social-Responsibility-Policy-Statement/#.V3aE6E32aM8>
- Expense and Entertainment
- Human Trafficking <http://kellyservices.com/Global/Human-Trafficking-Policy/>
- Information Security
- Privacy Statement http://kellyservices.com/Global/Privacy_Statement/
- Risk Appetite and Tolerance Statement
- Social Media
- Travel
- Workplace Violence

Failure to Comply; Compliance Procedures

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

Reviewed and adopted by Board of Directors August 8, 2017.

CERTIFICATIONS

I, George S. Corona, certify that:

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

Date: November 8, 2017

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

CERTIFICATIONS

I, Olivier G. Thiot, certify that:

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

Date: November 8, 2017

/s/ Olivier G. Thiot
Olivier G. Thiot
Senior Vice President and
Chief Financial Officer

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

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

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

Date: November 8, 2017

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

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

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

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

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

Date: November 8, 2017

/s/ Olivier G. Thiot
Olivier G. Thiot
Senior Vice President and Chief Financial
Officer

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