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

FORM 10-Q

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

For the quarterly period ended July 3, 2016

OR

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

Commission File Number 0-1088

KELLY SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	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 [X] 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 [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

At July 29, 2016, 34,656,091 shares of Class A and 3,437,643 shares of Class B common stock of the Registrant were outstanding.

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		26 Weeks Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Revenue from services	$ 1,375.5	$ 1,385.0	$ 2,724.6	$ 2,705.6
Cost of services	1,145.0	1,162.7	2,261.4	2,263.0
Gross profit	230.5	222.3	463.2	442.6
Selling, general and administrative expenses	220.6	210.8	438.6	419.0
Earnings from operations	9.9	11.5	24.6	23.6
Other expense, net	0.2	1.0	1.0	3.5
Earnings before taxes	9.7	10.5	23.6	20.1
Income tax expense	0.8	3.7	3.5	9.6
Net earnings	$ 8.9	$ 6.8	$ 20.1	$ 10.5
Basic earnings per share	$ 0.23	$ 0.18	$ 0.52	$ 0.27
Diluted earnings per share	$ 0.23	$ 0.18	$ 0.51	$ 0.27
Dividends per share	$ 0.075	$ 0.05	$ 0.125	$ 0.10
Average shares outstanding (millions):				
Basic	38.0	37.7	38.0	37.7
Diluted	38.3	37.8	38.2	37.8

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(In millions of dollars)

	13 Weeks Ended		26 Weeks Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Net earnings	$ 8.9	$ 6.8	$ 20.1	$ 10.5
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net of tax benefit of $0.1 million, tax expense of $0.1 million and $0.1 million and tax benefit of $0.2 million, respectively	(0.6)	2.7	11.3	(5.7)
Less: Reclassification adjustments included in net earnings	—	—	(0.3)	(0.2)
Foreign currency translation adjustments	(0.6)	2.7	11.0	(5.9)
Unrealized gains on investment, net of tax expense of $7.7 million, $2.1 million, $3.7 million and $3.8 million, respectively	15.6	3.5	7.5	6.6
Other comprehensive income	15.0	6.2	18.5	0.7
Comprehensive income	$ 23.9	$ 13.0	$ 38.6	$ 11.2

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In millions)

ASSETS	July 3, 2016	January 3, 2016
CURRENT ASSETS:		
Cash and equivalents	$ 33.3	$ 42.2
Trade accounts receivable, less allowances of $11.0 and $10.5, respectively	1,079.8	1,139.1
Prepaid expenses and other current assets	47.8	45.8
Current assets held for sale	94.0	—
Total current assets	1,254.9	1,227.1
NONCURRENT ASSETS:		
Property and equipment:		
Property and equipment	345.2	361.8
Accumulated depreciation	(263.7)	(272.9)
Net property and equipment	81.5	88.9
Noncurrent deferred taxes	197.0	189.3
Goodwill, net	88.3	90.3
Other assets	368.4	344.0
Total noncurrent assets	735.2	712.5
TOTAL ASSETS	$ 1,990.1	$ 1,939.6

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In millions)

LIABILITIES AND STOCKHOLDERS’ EQUITY	July 3, 2016	January 3, 2016
CURRENT LIABILITIES:		
Short-term borrowings	$ 26.9	$ 55.5
Accounts payable and accrued liabilities	403.7	405.5
Accrued payroll and related taxes	259.2	268.1
Accrued insurance	27.1	26.7
Income and other taxes	50.9	60.0
Current liabilities held for sale	48.0	—
Total current liabilities	815.8	815.8
NONCURRENT LIABILITIES:		
Accrued insurance	41.1	40.0
Accrued retirement benefits	148.5	141.0
Other long-term liabilities	50.6	47.4
Total noncurrent liabilities	240.2	228.4
Commitments and contingencies (see contingencies footnote)		
STOCKHOLDERS’ EQUITY:		
Capital stock, $1.00 par value		
Class A common stock, shares issued 36.6 at 2016 and 2015	36.6	36.6
Class B common stock, shares issued 3.5 at 2016 and 2015	3.5	3.5
Treasury stock, at cost		
Class A common stock, 2.0 shares at 2016 and 2.1 Shares at 2015	(41.5)	(43.7)
Class B common stock	(0.6)	(0.6)
Paid-in capital	28.1	25.4
Earnings invested in the business	828.8	813.5
Accumulated other comprehensive income	79.2	60.7
Total stockholders’ equity	934.1	895.4
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 1,990.1	$ 1,939.6

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(In millions of dollars)

	13 Weeks Ended		26 Weeks Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Capital Stock				
Class A common stock				
Balance at beginning of period	$ 36.6	$ 36.6	$ 36.6	$ 36.6
Conversions from Class B	—	—	—	—
Balance at end of period	36.6	36.6	36.6	36.6
Class B common stock				
Balance at beginning of period	3.5	3.5	3.5	3.5
Conversions to Class A	—	—	—	—
Balance at end of period	3.5	3.5	3.5	3.5
Treasury Stock				
Class A common stock				
Balance at beginning of period	(43.1)	(49.1)	(43.7)	(49.2)
Issuance of restricted stock and other	1.6	0.7	2.2	0.8
Balance at end of period	(41.5)	(48.4)	(41.5)	(48.4)
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	27.4	25.9	25.4	24.9
Issuance of restricted stock and other	0.7	1.6	2.7	2.6
Balance at end of period	28.1	27.5	28.1	27.5
Earnings Invested in the Business				
Balance at beginning of period	822.8	769.2	813.5	767.4
Net earnings	8.9	6.8	20.1	10.5
Dividends	(2.9)	(1.9)	(4.8)	(3.8)
Balance at end of period	828.8	774.1	828.8	774.1
Accumulated Other Comprehensive Income				
Balance at beginning of period	64.2	45.6	60.7	51.1
Other comprehensive income, net of tax	15.0	6.2	18.5	0.7
Balance at end of period	79.2	51.8	79.2	51.8
Stockholders' Equity at end of period	$ 934.1	$ 844.5	$ 934.1	$ 844.5

See accompanying unaudited Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In millions of dollars)

	26 Weeks Ended	
	July 3, 2016	June 28, 2015
Cash flows from operating activities:		
Net earnings	$ 20.1	$ 10.5
Noncash adjustments:		
Depreciation and amortization	10.9	11.0
Provision for bad debts	3.5	2.1
Stock-based compensation	4.5	3.1
Other, net	(0.7)	(0.3)
Changes in operating assets and liabilities	2.9	(52.9)
Net cash from (used in) operating activities	41.2	(26.5)
Cash flows from investing activities:		
Capital expenditures	(4.3)	(6.7)
Investment in equity affiliate	—	(0.5)
Other investing activities	(0.4)	(0.1)
Net cash used in investing activities	(4.7)	(7.3)
Cash flows from financing activities:		
Net change in short-term borrowings	(29.1)	(1.4)
Dividend payments	(4.8)	(3.8)
Other financing activities	0.2	—
Net cash used in financing activities	(33.7)	(5.2)
Effect of exchange rates on cash and equivalents	6.4	4.6
Net change in cash and equivalents	9.2	(34.4)
Less: cash balance included in current assets held for sale	(18.1)	—
Cash and equivalents at beginning of period	42.2	83.1
Cash and equivalents at end of period	$ 33.3	$ 48.7

See accompanying unaudited Notes to Consolidated Financial Statements.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Kelly Services, Inc. (the “Company,” “Kelly,” “we” or “us”) have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the results of the interim periods, have been made. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended January 3, 2016, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2016 (the 2015 consolidated financial statements). The Company’s second fiscal quarter ended on July 3, 2016 (2016) and June 28, 2015 (2015), each of which contained 13 weeks. The corresponding June year to date periods for 2016 and 2015 each contained 26 weeks.

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

2. Assets and Liabilities Held for Sale

On July 4, 2016, the Company and Temp Holdings Co., Ltd. (“Temp Holdings”), completed a transaction to expand their existing North Asia joint venture, TS Kelly Workforce Solutions. A new joint venture, TS Kelly Asia Pacific, has been formed by combining the Company’s Asia Pacific staffing operations with businesses of Temp Holdings. Under the agreement, Temp Holdings owns 51% of the expanded joint venture, and the Company owns the remaining 49% (see Subsequent Event footnote for further discussion). During the second quarter of 2016, the transaction met the criteria to be classified as held for sale and the assets and liabilities must be recorded at the lower of the carrying value or fair value less costs to sell.

Accordingly, the Company has presented the assets and liabilities of its Asia Pacific staffing operations (the “disposal group”) as held for sale on the consolidated balance sheet as of July 3, 2016. The disposal group is composed of two reportable segments, Asia Pacific Commercial and Asia Pacific Professional and Technical. The disposal group was recorded at the carrying value as the fair value less costs to sell exceeded the carrying value. The assets and liabilities classified as held for sale are 100% of the disposal group, however, the Company will retain a 49% interest in TS Kelly Asia Pacific, which it will record as an equity method investment on the consolidated balance sheet.

The following table presents information related to the major classes of assets and liabilities that are classified as held for sale in the consolidated balance sheet (in millions):

ASSETS		July 3, 2016
Cash and equivalents	$	18.1
Trade accounts receivable, less allowance of $1.5		62.2
Prepaid expenses and other current assets		7.8
Net property and equipment		1.4
Noncurrent deferred taxes		0.7
Goodwill, net		2.0
Other assets		1.8
Total current assets held for sale	$	94.0
LIABILITIES		
Accounts payable and accrued liabilities	$	17.9
Accrued payroll and related taxes		21.2
Accrued insurance		0.3
Income and other taxes		7.8
Accrued retirement benefits		0.5
Other long-term liabilities		0.3
Total current liabilities held for sale	$	48.0

The Company has recorded these assets and liabilities of the disposal group in the current assets held for sale and current liabilities held for sale lines on the consolidated balance sheet, as the disposal group was sold on July 4, 2016. The disposal group did not meet the criteria in the applicable guidance to be classified as discontinued operations.

3. Fair Value Measurements

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

Assets Measured at Fair Value on a Recurring Basis

The following tables present assets measured at fair value on a recurring basis on the consolidated balance sheet as of second quarter-end 2016 and year-end 2015 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.

	Fair Value Measurements on a Recurring Basis As of Second Quarter-End 2016			
Description	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	$ 3.9	$ 3.9	$ —	$ —
Available-for-sale investment	156.5	156.5	—	—
Total assets at fair value	$ 160.4	$ 160.4	$ —	$ —

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

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

Available-for-sale investment represents the Company's investment in Temp Holdings, a leading integrated human resources company in Japan, and is included in other assets on the consolidated balance sheet. The valuation is based on the quoted market price of Temp Holdings stock on the Tokyo Stock Exchange as of the period end. The unrealized gain, net of tax, of $15.6 million for the second quarter of 2016 and $3.5 million for the second quarter of 2015 was recorded in other comprehensive income, and in accumulated other comprehensive income, a component of stockholders' equity. The unrealized gain, net of tax, of $7.5 million for June year to date 2016 and $6.6 million for June year to date 2015 was recorded in other comprehensive income, as well as in accumulated other comprehensive income. The cost of this yen-denominated investment, which fluctuates based on foreign exchange rates, was $20.2 million as of the second quarter-end 2016 and $17.2 million at year-end 2015.

4. Restructuring

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

Restructuring costs incurred in the second quarter of 2016 totaled $3.4 million, as detailed below, and are recorded entirely in selling, general and administrative ("SG&A") expenses in the consolidated statement of earnings.

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

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

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

The remaining balance of $2.8 million as of second quarter-end 2016 represents primarily severance costs, and the majority is expected to be paid in 2016. No material adjustments are expected to be recorded.

5. Accumulated Other Comprehensive Income

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

	Second Quarter 2016			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
	(In millions of dollars)			
Beginning balance	$ (11.0)	$ 76.8	$ (1.6)	$ 64.2
Other comprehensive income (loss) before reclassifications	(0.6)	15.6	—	15.0
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current-period other comprehensive income (loss)	(0.6)	15.6	—	15.0
Ending balance	$ (11.6)	$ 92.4	$ (1.6)	$ 79.2

	June 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	11.3	7.5	—	18.8
Amounts reclassified from accumulated other comprehensive income	(0.3)	—	—	(0.3)
Net current-period other comprehensive income	11.0	7.5	—	18.5
Ending balance	$ (11.6)	$ 92.4	$ (1.6)	$ 79.2

	Second Quarter 2015			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
	(In millions of dollars)			
Beginning balance	$ (11.6)	$ 59.4	$ (2.2)	$ 45.6
Other comprehensive income before reclassifications	2.7	3.5	—	6.2
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current-period other comprehensive income	2.7	3.5	—	6.2
Ending balance	$ (8.9)	$ 62.9	$ (2.2)	$ 51.8

	June Year to Date 2015			
	Foreign Currency Translation Adjustments	Unrealized Gains and Losses on Investment	Pension Liability Adjustments	Total
	(In millions of dollars)			
Beginning balance	$ (3.0)	$ 56.3	$ (2.2)	$ 51.1
Other comprehensive income (loss) before reclassifications	(5.7)	6.6	—	0.9
Amounts reclassified from accumulated other comprehensive income	(0.2)	—	—	(0.2)
Net current-period other comprehensive income (loss)	(5.9)	6.6	—	0.7
Ending balance	$ (8.9)	$ 62.9	$ (2.2)	$ 51.8

6. Earnings Per Share

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

	Second Quarter		June Year to Date	
	2016	2015	2016	2015
Net earnings	$ 8.9	$ 6.8	$ 20.1	$ 10.5
Less: earnings allocated to participating securities	(0.2)	(0.2)	(0.5)	(0.3)
Net earnings available to common shareholders	$ 8.7	$ 6.6	$ 19.6	$ 10.2
Average shares outstanding (millions):				
Basic	38.0	37.7	38.0	37.7
Dilutive share awards	0.3	0.1	0.2	0.1
Diluted	38.3	37.8	38.2	37.8
Basic earnings per share	$ 0.23	$ 0.18	$ 0.52	$ 0.27
Diluted earnings per share	$ 0.23	$ 0.18	$ 0.51	$ 0.27

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

7. Stock-Based Compensation

Performance Shares

On February 17, 2016, the Company granted performance awards associated with the Company's Class A stock to certain senior officers. The payment of performance shares, which will be satisfied with the issuance of shares out of treasury stock, is contingent upon the achievement of specific performance goals over a stated period of time. For the 2016 performance share grant, the total target number of performance shares granted is 331,500, and the maximum number of performance shares that may be earned is 663,000, which assumes 200% of the target shares originally granted. Target shares of 248,625 may be earned upon the achievement of three financial goals ("financial measure performance shares") and target shares of 82,875 may be earned based on the Company's total shareholder return relative to the S&P SmallCap 600 Index ("TSR performance shares"). No dividends are paid on these performance shares.

The financial measure performance shares, which have a weighted average grant date fair value of $15.85, have a three-year performance period through December 31, 2018. These shares will cliff-vest after approval by the Compensation Committee, which will be no later than March 15, 2019, if not forfeited by the recipient. For each of the three financial measures, there are annual goals set in February of each year, with the total award payout based on a cumulative average of the 2016, 2017, and 2018 goals. Accordingly, the Company will remeasure the fair value of the 2016 financial measure performance shares each reporting period until the 2018 goals are set, after which the fair value will be fixed for the remaining performance period. As of second quarter-end 2016, the current fair value for financial measure performance shares was $18.02.

The TSR performance shares also have a three-year performance period through December, 31 2018 and have an estimated fair value of $19.73, which was computed using a Monte Carlo simulation model incorporating assumptions for inputs of expected stock price volatility, dividend yield and risk-free interest rate. These shares will cliff-vest after approval by the Compensation Committee, which will be no later than March 15, 2019, if not forfeited by the recipient.

For the second quarter 2016 and 2015, respectively, total compensation expense related to all performance shares totaled $0.8 million and $0.3 million, and the related tax benefit was $0.3 million and $0.1 million. For June year to date 2016 and 2015, respectively, total compensation expense related to all performance shares totaled $2.1 million and $0.3 million, and the related tax benefit was $0.8 million and $0.1 million.

8. Other Expense, Net

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

	Second Quarter		June Year to Date	
	2016	2015	2016	2015
	(In millions of dollars)			
Interest income	$ —	$ 0.1	$ 0.1	$ 0.2
Interest expense	(0.9)	(0.9)	(1.8)	(1.8)
Dividend income	0.6	0.4	0.6	0.4
Net loss on equity investment	(0.2)	(0.5)	(0.1)	(0.6)
Foreign exchange gain (loss)	0.3	(0.1)	0.2	(1.7)
Other expense, net	$ (0.2)	$ (1.0)	$ (1.0)	$ (3.5)

9. Contingencies

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

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

10. Segment Disclosures

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

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

The Company regularly assesses its organizational structure, product/service offerings and information evaluated by the CODM to determine whether any changes have occurred that would impact its segment reporting structure. The completion of the transaction establishing TS Kelly Asia Pacific will likely result in a change in how the Company allocates resources and analyzes performance and may result in a change to the Company's segment reporting in the future.

The following tables present information about the reported revenue from services and gross profit of the Company by segment, along with a reconciliation to consolidated earnings before taxes, for the second quarter and June year to date 2016 and 2015. 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.

	Second Quarter		June Year to Date	
	2016	2015	2016	2015
	(In millions of dollars)			
Revenue from Services:				
Americas Commercial	$ 635.3	$ 651.3	$ 1,283.9	$ 1,292.7
Americas PT	241.6	246.2	478.7	479.0
Total Americas Commercial and PT	876.9	897.5	1,762.6	1,771.7
EMEA Commercial	197.1	195.7	372.6	374.0
EMEA PT	43.1	42.9	84.7	83.2
Total EMEA Commercial and PT	240.2	238.6	457.3	457.2
APAC Commercial	87.9	90.3	170.7	175.9
APAC PT	9.2	10.3	18.3	20.8
Total APAC Commercial and PT	97.1	100.6	189.0	196.7
OCG	173.9	165.0	342.1	314.5
Less: Intersegment revenue	(12.6)	(16.7)	(26.4)	(34.5)
Consolidated Total	$ 1,375.5	$ 1,385.0	$ 2,724.6	$ 2,705.6

	Second Quarter		June Year to Date	
	2016	2015	2016	2015
	(In millions of dollars)			
Earnings from Operations:				
Americas Commercial gross profit	$ 98.9	$ 95.9	$ 201.0	$ 193.7
Americas PT gross profit	41.3	42.1	82.9	81.0
Americas Region gross profit	140.2	138.0	283.9	274.7
Americas Region SG&A expenses	(113.9)	(112.6)	(230.5)	(226.1)
Americas Region Earnings from Operations	26.3	25.4	53.4	48.6
EMEA Commercial gross profit	27.1	26.8	50.7	51.4
EMEA PT gross profit	8.7	9.1	17.4	17.8
EMEA Region gross profit	35.8	35.9	68.1	69.2
EMEA Region SG&A expenses	(33.2)	(34.2)	(63.5)	(67.7)
EMEA Region Earnings from Operations	2.6	1.7	4.6	1.5
APAC Commercial gross profit	10.3	11.2	23.3	24.2
APAC PT gross profit	2.5	2.7	5.0	5.6
APAC Region gross profit	12.8	13.9	28.3	29.8
APAC Region SG&A expenses	(11.6)	(12.3)	(22.7)	(24.4)
APAC Region Earnings from Operations	1.2	1.6	5.6	5.4
OCG gross profit	42.8	35.7	85.1	71.2
OCG SG&A expenses	(38.0)	(32.2)	(74.9)	(64.9)
OCG Earnings from Operations	4.8	3.5	10.2	6.3
Less: Intersegment gross profit	(1.1)	(1.2)	(2.2)	(2.3)
Less: Intersegment SG&A expenses	1.1	1.2	2.2	2.3
Net Intersegment Activity	—	—	—	—
Corporate	(25.0)	(20.7)	(49.2)	(38.2)
Consolidated Total	9.9	11.5	24.6	23.6
Other Expense, Net	0.2	1.0	1.0	3.5
Earnings Before Taxes	$ 9.7	$ 10.5	$ 23.6	$ 20.1

11. New Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02 amending the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability will initially be measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S. Generally Accepted Accounting Principles (“GAAP”), the presentation of expenses and cash flows will depend primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization’s leasing activities. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and requires modified retrospective application. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

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

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

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

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

12. Subsequent Event

On July 4, 2016, the Company and Temp Holdings completed a transaction to expand their existing North Asia joint venture, TS Kelly Workforce Solutions (formed in 2012). A new joint venture, TS Kelly Asia Pacific, was formed by the transfer of the Company's Asia Pacific staffing operations, which will be subsequently deconsolidated, and Temp Holdings' businesses, including Capita, with offices in Singapore and Malaysia; First Alliances, with offices in Vietnam; and Intelligence, with a presence in Indonesia, Vietnam, Singapore and Malaysia.

Upon closing, the Company received a cash payment of $36.5 million and a 49% equity interest in TS Kelly Asia Pacific. Temp Holdings owns the remaining 51% of the joint venture. In accordance with the terms of the transaction, a post-closing cash true-up adjustment may be required. The Company will record its interest in the joint venture as an equity method investment on the consolidated balance sheet during the third quarter of 2016 and will include its share of earnings prospectively in the consolidated statement of earnings. In connection with the transaction, the Company expects to record a gain on the deconsolidated assets of its Asia Pacific staffing operations during the third quarter of 2016, which is expected to be material. The Company is currently in the process of determining the fair value of its investment in TS Kelly Asia Pacific as of the closing date.

During the second quarter of 2016, the transaction met the criteria to be classified as held for sale. Accordingly, the Company has presented the assets and liabilities of its Asia Pacific staffing operations as held for sale on the consolidated balance sheet as of July 3, 2016 (see Assets and Liabilities Held for Sale footnote).

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

Executive Overview

The Workforce Solutions Industry

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

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

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

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

Our Business

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

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 53 days on a global basis as of the 2016 second quarter end, 54 days as of the 2015 year end and 56 days as of the 2015 second quarter end. Since receipts from customers generally lag temporary employee payroll, working capital requirements increase substantially in periods of growth.

Our Strategy and Outlook

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

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

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

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

- Earnings from operations for the second quarter of 2016 totaled $9.9 million, or $13.3 million excluding restructuring expenses, compared to $11.5 million in the second quarter of 2015. Conversion rate for the second quarter was 4.3%, or 5.8% excluding restructuring expense, compared to 5.2% in the same period last year.

- In the OCG segment, earnings from operations totaled $4.8 million, a 38% increase compared to the same period last year. OCG delivered good bottom-line leverage as top-line revenue growth continues. Growth was particularly strong in BPO, which continues to be a key driver of our strategic and financial progress.

- After strong demand in the first quarter, the U.S. staffing market softened in the second quarter, impacting our growth rates in the region. Overall Americas PT revenue fell 2% year over year, though accounts serviced through our U.S. branch network delivered positive PT growth. We will need to continue to accelerate PT growth, particularly within accounts serviced through our centralized delivery model, to fully realize the expected benefit of our investments. Despite the softer U.S. market, the Americas region delivered a year-over-year increase in earnings from operations excluding restructuring, as well as strong leverage for the second quarter.

- Despite uneven economic conditions, EMEA continues to deliver strong operating results. For the quarter, EMEA delivered $2.6 million of earnings from operations, or $3.8 million excluding restructuring expense, compared to $1.7 million a year ago.

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

- We expect to grow PT and OCG revenue, creating a more balanced portfolio that yields benefits from an improved mix.

- We expect Commercial to remain a core component of our strategy.

- We expect to exercise strict control over our cost base, delivering structural improvements that create strong operating leverage.

- And, as a result, we expect our conversion rate to continue to improve.

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

Financial Measures

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

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

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

Staffing Fee-Based Income

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

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

	2016	2015	Change	CC Change
Revenue from services	$ 1,375.5	$ 1,385.0	(0.7)%	0.6%
Staffing fee-based income	16.6	16.8	(1.6)	0.9
Gross profit	230.5	222.3	3.7	4.8
SG&A expenses excluding restructuring charges	217.2	210.8	3.0	4.1
Restructuring charges	3.4	—	NM	
Total SG&A expenses	220.6	210.8	4.6	5.7
Earnings from operations	9.9	11.5	(13.9)	
Gross profit rate	16.8%	16.1%	0.7 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	15.8	15.2	0.6	
% of gross profit	94.2	94.8	(0.6)	
Return on sales	0.7	0.8	(0.1)	
Conversion rate	4.3	5.2	(0.9)	

Total Company revenue from services for the second quarter of 2016 was down 0.7% in comparison to the prior year and up 0.6% on a CC basis, as more fully described in the following discussions.

The gross profit rate increased by 70 basis points. As more fully described in the following discussions, increases in the Americas and OCG gross profit rates were partially offset by declines in the gross profit rate in the EMEA and APAC regions.

Total SG&A expenses increased 4.6% on a reported basis and 5.7% on CC basis. Included in SG&A expenses are restructuring charges of $3.4 million, relating to actions taken in the Americas and EMEA regions to manage operating expenses and prepare the businesses for future growth. Also included in SG&A expenses for the second quarter of 2016 are $3.0 million of additional costs related to certain benefit plans and litigation, $1.2 million of one-time costs related to the expansion of the APAC staffing joint venture and an increase in OCG SG&A expenses due to growth in that segment. These increases were partially offset by continued cost management efforts in the EMEA and APAC regions.

Income tax expense for the second quarter of 2016 was $0.8 million, compared to $3.7 million for the second quarter of 2015. Our tax expense is affected by recurring items, such as the amount of pretax income and its mix by jurisdiction, U.S. work opportunity credits, and the change in cash surrender value of non-taxable investments in life insurance policies. It is also affected by discrete items that may occur in any given period but are not consistent from period to period, such as tax law changes, or changes in judgment regarding the realizability of deferred tax assets. The decrease in income tax expense from the prior year is primarily due to the reinstatement of the work opportunity credit program. Valuation allowances in certain foreign countries could be reduced in the near term if future taxable income is sufficient to make it more likely than not that deferred tax assets will be realizable in those jurisdictions.

Diluted earnings per share for the second quarter of 2016 were $0.23, as compared to $0.18 for the second quarter of 2015.

Total Americas - Second Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	$ 876.9	$ 897.5	(2.3)%	(1.4)%
Staffing fee-based income	7.9	8.4	(5.2)	(4.7)
Gross profit	140.2	138.0	1.6	2.3
SG&A expenses excluding restructuring charges	111.7	112.6	(0.8)	(0.2)
Restructuring charges	2.2	—	NM	
Total SG&A expenses	113.9	112.6	1.2	1.8
Earnings from operations	26.3	25.4	3.6	
Gross profit rate	16.0%	15.4%	0.6 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	12.7	12.5	0.2	
% of gross profit	79.6	81.6	(2.0)	
Return on sales	3.0	2.8	0.2	

The change in Americas revenue from services on a reported basis was due to a 3% decrease in hours volume, partially offset by a 1% increase in average bill rates (a 2% increase on a CC basis). The increase in average bill rates was due to wage rate and the resulting bill rate inflation. Americas represented 64% of total Company revenue in the second quarter of 2016 and 65% in the second quarter of 2015.

Revenue in our Commercial segment was down 3% and down 1% on a CC basis in comparison to the prior year. The lower revenue was primarily due to a decrease in our office services volume in both our branch-based and centralized delivery models. These decreases were partially offset by an increase in our educational staffing business and in our light industrial product due to new customer wins.

In the PT segment, reported and CC revenue was down 2% in comparison to the prior year. We had a revenue decrease of 3% in the accounts serviced through our centralized delivery model due to the impact of vendor neutral accounts on our business, partially offset by a 1% revenue increase in the accounts serviced through our branch delivery network. Revenue increased in our finance product, while revenue in our science, engineering and IT products were down compared to a year ago.

The increase in the gross profit rate was primarily due to improved management of our payroll taxes and employee benefit costs, as well as lower workers' compensation costs. These increases were partially offset by customer mix.

Total SG&A expenses increased 1.2% on a reported basis and 1.8% on a CC basis. Included in SG&A expenses are restructuring charges of $2.2 million. These charges represent severance costs related to headcount reductions as well as lease buyout costs due to branch consolidations. Excluding restructuring charges, SG&A expenses decreased 0.8% on a reported basis and 0.2% on a CC basis, due primarily to lower incentive payments.

Total EMEA - Second Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	$ 240.2	$ 238.6	0.7 %	2.8%
Staffing fee-based income	6.2	5.7	7.4	11.6
Gross profit	35.8	35.9	(0.3)	1.6
SG&A expenses excluding restructuring charges	32.0	34.2	(6.3)	(3.9)
Restructuring charges	1.2	—	NM	
Total SG&A expenses	33.2	34.2	(3.0)	(0.6)
Earnings from operations	2.6	1.7	54.4	
Gross profit rate	14.9%	15.0%	(0.1) pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.3	14.3	(1.0)	
% of gross profit	89.6	95.3	(5.7)	
Return on sales	1.1	0.7	0.4	

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

The EMEA gross profit rate decreased primarily due to a decline in the temporary staffing gross profit rate, which was mainly driven by unfavorable customer mix in Switzerland and the U.K. This decrease was partially offset by higher staffing fee-based income. Staffing fee-based income increased primarily in Western Europe as a result of targeted investments in multiple markets.

Total SG&A expenses decreased 3.0% on a reported basis and 0.6% on a CC basis. Included in SG&A expenses are restructuring charges of $1.2 million. The restructuring, which relates to Italy staffing operations, is designed to reposition our operating model to pursue growth in staffing fee-based income and specialized temporary staffing business. SG&A expenses excluding restructuring decreased 6.3% on a reported basis and 3.9% on a CC basis due to effective cost control in headquarters expenses across the region.

Total APAC - Second Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	$ 97.1	$ 100.6	(3.5)%	0.6%
Staffing fee-based income	3.1	3.3	(6.6)	(2.4)
Gross profit	12.8	13.9	(8.4)	(4.5)
SG&A expenses	11.6	12.3	(5.4)	(1.5)
Earnings from operations	1.2	1.6	(31.4)	
Gross profit rate	13.2%	13.9%	(0.7) pts.	
Expense rates:				
% of revenue	12.0	12.2	(0.2)	
% of gross profit	91.2	88.3	2.9	
Return on sales	1.2	1.6	(0.4)	

The decrease in APAC revenue from services was primarily due to a 5% decrease in average bill rates partially offset by a 1% increase in hours volume. On a CC basis, average bill rates were relatively flat. The increase in hours volume was primarily driven by India. APAC revenue represented 7% of total Company revenue in the second quarter of both 2016 and 2015.

The gross profit rate decreased primarily due to a year-over-year decrease in Singapore wage credits.

The decrease in SG&A expenses was due to continued cost control across the APAC region.

OCG - Second Quarter
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	$ 173.9	$ 165.0	5.4%	5.9%
Gross profit	42.8	35.7	20.1	20.9
SG&A expenses	38.0	32.2	18.1	19.0
Earnings from operations	4.8	3.5	38.2	
Gross profit rate	24.6%	21.6%	3.0 pts.	
Expense rates:				
% of revenue	21.8	19.5	2.3	
% of gross profit	88.7	90.2	(1.5)	
Return on sales	2.8	2.1	0.7	

The increase in revenue from services in the OCG segment was due primarily to growth in the BPO practice area. Revenue in BPO grew by 11% year over year. This revenue growth was due to the expansion of programs with existing customers and, to a lesser extent, new customers. OCG revenue represented 13% of total Company revenue in the second quarter of 2016 and 12% in the second quarter of 2015.

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

The increase in SG&A expenses was primarily a result of costs associated with increased volume with existing customers, including salaries and performance-based compensation, as well as costs related to additional sales resources.

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

	2016	2015	Change	CC Change
Revenue from services	$ 2,724.6	$ 2,705.6	0.7%	2.5%
Staffing fee-based income	33.1	33.0	0.5	3.9
Gross profit	463.2	442.6	4.6	6.2
SG&A expenses excluding restructuring charges	435.2	419.0	3.8	5.4
Restructuring charges	3.4	—	NM	
Total SG&A expenses	438.6	419.0	4.7	6.2
Earnings from operations	24.6	23.6	4.2	
Gross profit rate	17.0%	16.4%	0.6 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	16.0	15.5	0.5	
% of gross profit	93.9	94.7	(0.8)	
Return on sales	0.9	0.9	—	
Conversion rate	5.3	5.3	—	

Total Company revenue from services for the first six months of 2016 was up 0.7% in comparison to the prior year on a reported basis, and up 2.5% on a CC basis, as more fully described in the following discussions.

The gross profit rate increased 60 basis points on a year-over-year basis. Increases in the Americas and OCG gross profit rates were partially offset by declines in the gross profit rates in the EMEA and APAC regions, as more fully described in the following discussions.

Total SG&A expenses increased 4.7% on a reported basis and 6.2% on a CC basis. Included in SG&A expenses are restructuring charges of $3.4 million, which relate to actions taken in the Americas and EMEA regions to manage operating expenses and prepare the businesses for future growth. Also included in SG&A expenses for the first six months of 2016 are $8.6 million of additional costs related to certain benefit plans and litigation, $1.3 million of one-time costs related to the expansion of the APAC staffing joint venture and an increase in OCG SG&A expenses due to growth in that segment. These increases were partially offset by continued cost management efforts in the EMEA and APAC regions.

Income tax expense for the first six months of 2016 was $3.5 million, compared to $9.6 million for the first six months of 2015. Our tax expense is affected by recurring items, such as the amount of pretax income and its mix by jurisdiction, U.S. work opportunity credits, and the change in cash surrender value of non-taxable investments in life insurance policies. It is also affected by discrete items that may occur in any given period but are not consistent from period to period, such as tax law changes, or changes in judgment regarding the realizability of deferred tax assets. The decrease in income tax expense from the prior year is primarily due to the reinstatement of the work opportunity credit program and a more favorable mix of income. Valuation allowances in certain foreign countries could be reduced in the near term if future taxable income is sufficient to make it more likely than not that deferred tax assets will be realizable in those jurisdictions.

Diluted earnings per share for the first six months of 2016 were $0.51, as compared to $0.27 for the first six months of 2015.

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

	2016	2015	Change	CC Change
Revenue from services	$ 1,762.6	$ 1,771.7	(0.5)%	0.7%
Staffing fee-based income	16.5	15.4	7.3	8.4
Gross profit	283.9	274.7	3.3	4.3
SG&A expenses excluding restructuring charges	228.3	226.1	1.0	1.9
Restructuring charges	2.2	—	NM	
Total SG&A expenses	230.5	226.1	1.9	2.9
Earnings from operations	53.4	48.6	9.9	
Gross profit rate	16.1%	15.5%	0.6 pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.0	12.8	0.2	
% of gross profit	80.4	82.3	(1.9)	
Return on sales	3.0	2.7	0.3	

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

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

In the PT segment, reported and CC revenue was flat in comparison to the prior year. PT revenue is up 6% in accounts serviced by our branch-based delivery model, while PT revenue is down 2% in accounts serviced by our centralized delivery model.

The increase in the gross profit rate was primarily due to lower payroll taxes and employee benefit costs coupled with higher staffing fee-based income, partially offset by slightly lower pricing due to customer mix.

Total SG&A expenses increased 1.9% on a reported basis and 2.9% on a constant currency basis. Included in SG&A expenses are restructuring charges of $2.2 million. These charges represent severance costs related to headcount reductions as well as lease buyout costs due to branch consolidations. SG&A expenses excluding restructuring charges increased 1.0% on a reported basis and 1.9% on a CC basis. This increase is attributable to higher salaries and allocations of corporate services costs, partially offset by lower incentive payments.

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

	2016	2015	Change	CC Change
Revenue from services	$ 457.3	$ 457.2	— %	3.3%
Staffing fee-based income	12.2	11.8	3.5	8.4
Gross profit	68.1	69.2	(1.6)	1.5
SG&A expenses excluding restructuring charges	62.3	67.7	(7.8)	(4.7)
Restructuring charges	1.2	—	NM	
Total SG&A expenses	63.5	67.7	(6.2)	(3.0)
Earnings from operations	4.6	1.5	205.2	
Gross profit rate	14.9%	15.1%	(0.2) pts.	
Expense rates (excluding restructuring charges):				
% of revenue	13.6	14.8	(1.2)	
% of gross profit	91.6	97.8	(6.2)	
Return on sales	1.0	0.3	0.7	

The change in reported EMEA revenue from services was due to relatively flat hours volume and average bill rates. On a CC basis, the increase in revenue from services was due to a 3% increase in average bill rates, combined with an increase in staffing fee-based income. The increase in average bill rates on a CC basis was due primarily to the U.K. EMEA represented 17% of total Company revenue in the first six months of both 2016 and 2015.

The EMEA gross profit rate decreased primarily due to a decline in the temporary gross profit rate, mainly driven by unfavorable customer mix in Switzerland and the U.K. Staffing fee-based income increased primarily in Western Europe as a result of targeted investments in multiple markets.

Total SG&A expenses decreased 6.2% on a reported basis and 3.0% on a CC basis, primarily due to effective cost control in headquarters expenses across the region. Included in SG&A expenses are restructuring charges of $1.2 million. These charges reflect a repositioning of the operating model to pursue growth in staffing fee-based income and specialized temporary staffing business in Italy.

Total APAC - June Year to Date
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	$ 189.0	$ 196.7	(3.9)%	2.1%
Staffing fee-based income	5.7	6.4	(10.9)	(5.2)
Gross profit	28.3	29.8	(5.0)	0.1
SG&A expenses	22.7	24.4	(7.0)	(1.4)
Earnings from operations	5.6	5.4	3.8	
Gross profit rate	15.0%	15.2%	(0.2) pts.	
Expense rates:				
% of revenue	12.0	12.4	(0.4)	
% of gross profit	80.3	82.0	(1.7)	
Return on sales	3.0	2.7	0.3	

The reported change in total APAC revenue from services was due primarily to a 6% decrease in average bill rates, partially offset by a 2% increase in hours volume. On a CC basis, average bill rates were relatively flat. The increase in hours volume was primarily due to India. APAC revenue represented 7% of total Company revenue in the first six months of both 2016 and 2015.

The gross profit rate declined on a year-over-year basis due to decreases in the staffing fee-based income, partially offset by an increase in the temporary staffing gross profit rate, driven by favorable customer mix. Staffing fee-based income decreased due mainly to a weaker hiring climate in Australia. Singapore wage credits amounted to $3.6 million in the first six months of 2016, slightly lower than the prior year.

The decrease in SG&A expenses was due to continuing productivity improvements across the APAC region.

OCG - June Year to Date
(Dollars in millions)

	2016	2015	Change	CC Change
Revenue from services	$ 342.1	$ 314.5	8.8%	9.5%
Gross profit	85.1	71.2	19.6	20.6
SG&A expenses	74.9	64.9	15.5	16.7
Earnings from operations	10.2	6.3	61.3	
Gross profit rate	24.9%	22.6%	2.3 pts.	
Expense rates:				
% of revenue	21.9	20.6	1.3	
% of gross profit	88.0	91.1	(3.1)	
Return on sales	3.0	2.0	1.0	

Revenue from services in the OCG segment increased during the first six months of 2016 due primarily to growth in the BPO and CWO practice areas. Revenue in BPO grew by 12% year over year and CWO, which includes PPO, grew by 6% year over year. The revenue growth in BPO and CWO was due primarily to the expansion of programs with existing customers and, to a lesser extent, new customers. OCG revenue represented 13% of total Company revenue in the first six months of 2016 and 12% in the first six months of 2015.

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

The increase in SG&A expenses was primarily a result of costs related to additional sales resources, as well as costs associated with increased volume with existing customers, including salaries and performance-based compensation.

Financial Condition

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

Cash and Equivalents

Cash and equivalents totaled $33.3 million at the end of the second quarter of 2016 and $42.2 million at year-end 2015. Cash at the end of the second quarter of 2016 does not include the $18.1 million of cash held in the APAC staffing operations which has been reclassified as held for sale. As further described below, we generated $41.2 million of cash from operating activities, used $4.7 million of cash for investing activities and used $33.7 million of cash for financing activities.

Operating Activities

In the first six months of 2016, we generated $41.2 million of net cash from operating activities, as compared to using $26.5 million in the first six months of 2015. This change was the result of lower growth in trade accounts receivable due in part to improved global days sales outstanding ("DSO") as noted below, as well as improving net earnings.

Trade accounts receivable totaled $1.1 billion at the end of the second quarter of 2016. Global DSO were 53 days at the end of the second quarter of 2016 and 56 at the end of the second quarter of 2015.

Including net assets held for sale, our working capital position (total current assets less total current liabilities) was $439.1 million at the end of the second quarter of 2016, an increase of $27.8 million from year-end 2015. The current ratio (total current assets divided by total current liabilities) was 1.5 at the end of the second quarter of 2016 and at year-end 2015.

Investing Activities

In the first six months of 2016, we used $4.7 million of cash for investing activities, as compared to using $7.3 million in the first six months of 2015. Capital expenditures in both years relate primarily to the Company's technology programs.

Financing Activities

In the first six months of 2016, we used $33.7 million of cash for financing activities, as compared to using $5.2 million in the first six months of 2015. The change in cash used in financing activities was caused by decreased short-term borrowings. Debt totaled $26.9 million at the end of the second quarter of 2016 and $55.5 million at year-end 2015. Debt-to-total capital (total debt reported on the balance sheet divided by total debt plus stockholders' equity) is a common ratio to measure the relative capital structure and leverage of the Company. Our ratio of debt-to-total capital was 2.8% at the end of the second quarter of 2016 and 5.8% at year-end 2015.

The net change in short-term borrowings in the first six months of 2016 was primarily due to payments on our U.S. securitization facility partially offset by borrowings on our revolving credit facility. The net change in short-term borrowings in the first six months of 2015 was primarily due to payments on our U.S. and Brazilian revolving credit facilities.

We made dividend payments of $4.8 million in the first six months of 2016 and $3.8 million in the first six months of 2015.

New Accounting Pronouncements

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

Contractual Obligations and Commercial Commitments

There are no material changes in our obligations and commitments to make future payments from those included in the Company's Annual Report on Form 10-K filed February 18, 2016. We have no material, unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities.

Liquidity

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

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

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

As of the 2016 second quarter end, we had $187.2 million of available capacity on our $200.0 million revolving credit facility and $93.6 million of available capacity on our $150.0 million securitization facility. The securitization facility carried $8.0 million of short-term borrowings and $48.4 million of standby letters of credit related to workers' compensation. Together, the revolving credit and securitization facilities provide the Company with committed funding capacity that may be used for general corporate purposes. While we believe these facilities will cover our working capital needs over the short term, if economic conditions or operating results change significantly, we may need to seek additional sources of funds. As of the 2016 second quarter end, we met the debt covenants related to our revolving credit facility and securitization facility. We intend to refinance our securitization facility, which expires on December 9, 2016, on or before the due date.

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

Forward-Looking Statements

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

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

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

Item 4. Controls and Procedures.

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Item 1A. Risk Factors.

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

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

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

None.

(c) Issuer Repurchases of Equity Securities

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

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (in millions of dollars)
April 4, 2016 through May 8, 2016	1,116	$ 18.50	—	$ —
May 9, 2016 through June 5, 2016	558	19.34	—	$ —
June 6, 2016 through July 3, 2016	26,131	18.91	—	$ —
Total	27,805	$ 18.90	—	

We may reacquire shares sold to cover taxes due upon the vesting of restricted stock held by employees. Accordingly, 27,805 shares were reacquired in transactions during the quarter.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 6. Exhibits.

See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 39 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: August 10, 2016

/s/ Olivier G. Thirot
Olivier G. Thirot

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

Date: August 10, 2016

/s/ Laura S. Lockhart
Laura S. Lockhart

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

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

Exhibit No.	Description
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

Exhibit 31.1

CERTIFICATIONS

I, Carl T. Camden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kelly Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2016

/s/ Carl T. Camden

Carl T. Camden

President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Olivier G. Thirot, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kelly Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2016

/s/ Olivier G. Thirot

Olivier G. Thirot

Senior Vice President and
Chief Financial Officer

Exhibit 32.1

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 July 3, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carl T. Camden, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2016

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

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

Exhibit 32.2

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 July 3, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Olivier G. Thirot, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2016

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

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