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

FORM 8-K/A

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

Date of Report (Date of earliest event reported): June 21, 2021 (April 5, 2021)

KELLY SERVICES, INC.

(Exact name of Registrant as specified in its charter)

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

999 West Big Beaver Road, Troy, Michigan 48084

(Address of principal executive offices)
(Zip Code)

(248) 362-4444

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Emerging growth company ☐

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On April 6, 2021, Kelly Services, Inc., a Delaware corporation (the "Company"), filed with the U.S. Securities and Exchange Commission ("SEC") a Current Report on Form 8-K (the "Initial Report") to announce the completion of the Company's acquisition of Softworld, Inc., a Massachusetts corporation ("Softworld").

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

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

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of business acquired.

The historical audited balance sheet of Softworld as of December 27, 2020, the related statement of income, statement of changes in retained earnings, and statement of cash flows for the year ended December 27, 2020, the accompanying notes thereto, and the related Report of Independent Registered Public Accounting Firm thereon dated June 16, 2021, are incorporated by reference as Exhibit 99.1 hereto.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of the Company, giving effect to the acquisition of Softworld, which includes the unaudited pro forma condensed combined balance sheet as of January 3, 2021, the unaudited pro forma combined statement of earnings for the year ended January 3, 2021 and the related notes, is filed herewith as Exhibit 99.2 and included by reference herein.

(c) Exhibits

Exhibit No.	Description
23.1	Consent of Miller Wachman LLP, independent registered public accounting firm for Softworld.
99.1	The audited balance sheet of Softworld as of December 27, 2020, the related statement of income, statement of changes in retained earnings, and statement of cash flows for the year ended December 27, 2020 and the related notes.
99.2	The unaudited pro forma condensed combined financial information of the Company, giving effect to the acquisition of Softworld, which includes the unaudited pro forma condensed combined balance sheet as of January 3, 2021, the unaudited pro forma combined statement of earnings for the year ended January 3, 2021 and the related notes.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

June 21, 2021	KELLY SERVICES, INC.
	/s/ Olivier G. Thirot Olivier G. Thirot Executive Vice President and Chief Financial Officer (Principal Financial Officer)
June 21, 2021	
	/s/ Laura S. Lockhart Laura S. Lockhart Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Current Report on Form 8-K/A of Kelly Services, Inc. of our report dated June 16, 2021, relating to the financial statements of Softworld, Inc.

/s/ Miller Wachman LLP
Boston, Massachusetts
June 21, 2021

Softworld, Inc.

Financial Statements

December 27, 2020

Softworld, Inc.
Index to Financial Statements
December 27, 2020

Independent Auditor's Report

To The Stockholder
Softworld, Inc.
Waltham, Massachusetts

We have audited the accompanying financial statements of Softworld, Inc. (a Subchapter S Corporation) which comprise the balance sheet as of December 27, 2020, and the related statement of income, changes in retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Softworld, Inc. as of December 27, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As described in Note 12 of the financial statements, the Company identified errors relating to understatements of certain liabilities and expenses as well as an overstatement of unbilled accounts receivable and revenue in prior periods. The cumulative effect of correcting these errors decreased opening retained earnings by approximately $2,741,000 net of taxes of $83,000. Our opinion is not modified with respect to that matter.

/s/ Miller Wachman LLP

Boston, Massachusetts
June 16, 2021

Softworld, Inc.

Balance Sheet

December 27, 2020

Assets

Current Assets		
Cash and cash equivalents	$	5,678,292
Accounts receivable - trade, net of allowance for doubtful accounts of $190,000		14,119,749
Unbilled accounts receivable		4,128,981
Prepaid expenses and other current assets		521,224
Total current assets		24,448,246
Property and Equipment, Net		1,177,444
Other Assets		
Loan receivable - officer		144,666
Security deposits		196,946
		341,612
Total Assets	$	25,967,302

Liabilities and Stockholders' Equity

Current Liabilities		
Accounts payable and accrued expenses	$	8,473,745
Distribution payable		2,201,217
Income taxes payable		220,000
Total current liabilities		10,894,962
Deferred Compensation Payable		5,731,000
Deferred State Income Taxes		124,000
Total Liabilities		16,749,962
Stockholders' Equity		
Common stock, no par value		
Authorized and issued 1,000 shares		-
Retained earnings		9,217,340
Total stockholders' equity		9,217,340
Total Liabilities and Stockholders' Equity	$	25,967,302

Softworld, Inc.
Statement of Income
Year Ended December 27, 2020

Revenues	
Temporary employment services	$ 109,062,151
Permanent placement services	1,466,275
Total revenues	110,528,426
Cost of Revenues	71,393,271
Gross Profit	39,135,155
Selling, General and Administrative Expenses	27,822,411
Income from Operations	11,312,744
Other Expenses	
Deferred compensation	3,341,000
Other	226,373
Total other expenses	3,567,373
Income Before Provision for State Income Tax	7,745,371
Provision for State Income Taxes	221,282
Net Income	$ 7,524,089

Softworld, Inc.
Statement of Changes in Retained Earnings
Year Ended December 27, 2020

Retained Earnings - Beginning of Year As Previously Reported	**$ 15,440,682**
Prior Period Adjustments (net of related income taxes of $83,000)	**(2,741,347)**
Opening Retained Earnings - as Restated	**12,699,335**
Net Income	**7,524,089**
Distribution to Stockholders	**(11,006,084)**
Retained Earnings - End of Year	**$ 9,217,340**

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

Softworld, Inc.

Statement of Cash Flows

Year Ended December 27, 2020

Cash Flows from Operating Activities	
Net Income	$ 7,524,089
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	523,965
Deferred state income taxes	(127,000)
Deferred compensation payable	3,341,000
Change in allowance for doubtful accounts	25,065
	11,287,119
Changes in operating assets and liabilities:	
Accounts receivable	(1,946,798)
Unbilled accounts receivable	1,167,388
Other assets	2,637
Prepaid expenses and other current assets	30,661
Accounts payable and accrued expenses	1,885,406
Income tax liability	81,465
Net cash provided by operating activities	12,507,878
Cash Flows from Investing Activities	
Officer loan receivable	(4,386)
Purchase of property and equipment	(799,665)
Net cash used in investing activities	(804,051)
Cash Flows from Financing Activities	
Distributions to stockholders	(8,804,867)
Net cash used in financing activities	(8,804,867)
Increase in Cash and Cash Equivalents	2,898,960
Cash and Cash Equivalents, at Beginning of Year	2,779,332
Cash and Cash Equivalents, at End of Year	$ 5,678,292
Supplemental Disclosure of Cash Flow Information	
Cash paid for income taxes	$ 255,900
Distribution Payable	$ 2,201,217

Note 1 - Summary of Significant Accounting Policies

Nature of Operation

Softworld, Inc. (the "Company") was incorporated in April 1995, as a Massachusetts corporation. The Company provides temporary staffing, permanent placement and certain project services to clients located nationally. Such services are principally focused in the area of information technology with practices in Financial Services, Engineering, Life Sciences and Government.

Basis of Presentation

These financial statement have been prepared in accordance with United States generally accepted accounting principals (US GAAP).

Accounting Period

Softworld, Inc. reports on a 52/53-week year ending the Sunday nearest December 31. The fiscal year ended December 27, 2020 ("2020") include 52 weeks and has been designated as 2020, in the accompanying financial statements.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has a cash management program which provides for the investment of excess cash balances primarily in money market accounts. The Company considers such highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Revenue Recognition

Revenues are recognized when control of the promised services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Revenues are recorded net of any sales, value added, or similar taxes collected from our customers. Revenue are generated from: the hourly sales of services by temporary employees to customers ("temporary employment services"), and the recruiting of permanent employees for customers ("permanent placement services"), and through talent fulfillment and outcome-based activities ("talent solutions services" and "outcome-based services").

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

The Company records revenues from sales of services and the related direct costs in accordance with the accounting guidance on reporting revenue gross as a principal versus net as an agent. When the Company is the principal, we demonstrate control over the service by being the employer of record for the individuals performing the service, by being primarily responsible to customers and by having a level of discretion in establishing pricing in which the gross amount is recorded as revenues. When the Company arranges for other contingent labor suppliers and/or service providers to perform services for the customer, we do not control those services before they are transferred, and therefore, the amounts billed to customers are net of the amounts paid to the secondary service providers and the net amount is recorded as revenues.

Employment services contracts are short-term in nature. Billings are generally negotiated and invoiced on a per-hour or per-unit basis as the temporary staffing services are transferred to the customer. Revenue from the majority of employment services continues to be recognized over time as the customer simultaneously receives and consumes the services provided. The Company has applied the practical expedient to recognize revenue for these services over the term of the agreement in proportion to the amount they have the right to invoice the customer.

Permanent placement revenue is recorded at the point in time the permanent placement candidate begins full-time employment. On the candidate start date, the customer accepts the candidate and can direct the use of the candidate as well as obtains the significant risk and rewards of the candidate. The Company considers this the point the control transfers to the customer.

Outcome-based service revenues are generally negotiated and invoiced on a measure of time (hours, weeks, months) or per-unit basis for our services performed. We continue to recognize revenue from the majority of our outcome-based services over time as the customer simultaneously receives and consumes the services we provide. For the majority of our outcome-based services, we have applied the practical expedient to recognize revenue for these services over the term of the agreement in proportion to the amount we have the right to invoice the customer.

Certain customers may receive cash-based incentives or credits, which are accounted for as a form of variable consideration. We estimate these amounts based on the expected or likely amount to be provided to customers and reduce revenues recognized to the extent that it is probable that a significant reversal of such adjustment will not occur. Provisions for sales allowances (billing adjustments related to errors, service issues and compromises on billing disputes), based on historical experience, are recognized at the time the related sale is recognized as a reduction in revenue from services.

Customer payments are typically due within 30 days of invoicing, but may be shorter or longer depending on contract terms. We do not have any significant financing components or extended payment terms.

Note 1 - Summary of Significant Accounting Policies (Continued)

Trade Accounts Receivable and Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. The Company maintains an allowance for potentially uncollectible accounts receivable based upon its assessment of the collectability. For the year ended December 27, 2020 three customers accounted for over five percent of revenue each and totaled approximately 32% of revenue for year then ended. Three entities accounted for approximately 19% of billed accounts receivable as of December 27, 2020.

The Company's cash in the bank may, at times, exceed the federally insured limit of $250,000. At year end December 27, 2020, the Company's cash exceeded the federally insured limit by approximately $5,586,000.

Unbilled Accounts Receivable

Unbilled accounts receivable represent revenues recognized for services provided for which customer invoices have not yet been sent.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is calculated using the straight line method and other accelerated methods over the estimated useful lives of the related assets, which are as follows:

	Years
Computer and office equipment	3-5
Furniture and fixtures	5
Software	5
Automobiles	5
Leasehold improvements	Term of Lease

Note 1 - Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. For the year ended December 27, 2020, there were no impairment losses recognized for long-lived assets.

Income Taxes

The Company, with the consent of its stockholders, has elected under the Internal Revenue Code and certain state income tax statutes to be an S Corporation. In lieu of corporation income taxes, the stockholders of an S Corporation are taxed on their proportionate share of the corporation's taxable income. Therefore, no provisions or liability for federal income taxes have been included in the financial statements. Taxable income for state income tax purposes is similarly apportioned among stockholders. However, taxes on the Company's income are assessed by certain states.

Tax provisions are recorded for liabilities to states assessing income taxes on the Company where it does business. The provision includes taxes that are currently due and taxes that are deferred as a result of temporary differences between financial statement amounts and the tax basis of certain assets and liabilities.

The Company provides for liability on tax positions where it is considered more-likely-than-not that the position would be denied upon examination. Management performed an evaluation of tax positions taken on filed returns for open years and positions expected to be taken in filings for the current year. Management is of the opinion that such returns do not contain any material positions that are unlikely to be sustained, and therefore no accrual for uncertain tax positions has been made. Returns for tax years beginning with those filed for the year ended December 2016 are open to examination.

Advertising and Promotion Costs

The Company expenses advertising and promotion costs as incurred. During the year ended December 27, 2020, the Company incurred advertising and promotion expense of $1,065,436.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates. Significant estimates made by management include the allowance for doubtful accounts and deferred compensation accrual.

Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued expenses, and other current liabilities approximate their fair values due to the short maturity of these instruments. See also, Notes 8 and 9, for information on Phantom Stock and Deferred Compensation Arrangements ("the agreement").

Comprehensive Income

Comprehensive income is defined as changes in stockholders' equity, exclusive of transactions with owners (such as capital contributions and distributions). The Company did not have any comprehensive income items for the fiscal year ended December 27, 2020, other than net income as reported.

Note 2 - Property and Equipment

Property and equipment consisted of the following as of year ended 2020:

Computer and office equipment	$ 1,301,535
Furniture and fixtures	432,343
Software	689,624
Leasehold improvements	268,207
	2,691,709
Less - Accumulated depreciation	(1,514,265)
	$ 1,177,444

Note 3 - Loan Receivable - Officer

Represents two advances to officers of the Company in the original principal amounts of $120,351 and $10,000. The loans bear interest at 3% and 4.48%, respectively, per annum. The loans and accrued interest thereon are due upon termination of employment or sale of the Company. The amounts, inclusive of all interest due, were repaid in full subsequent to year end.

Note 4 - Line of Credit

The Company has a line of credit agreement with its bank. Borrowings under the line of credit are due on demand are collateralized by substantially all assets of the Company.

Under the line of credit agreement, the maximum borrowing limit is the lesser of, $6,000,000 or 75% of eligible accounts receivable plus certain other amounts. The line of credit agreement expires on January 31, 2022. Interest on any outstanding balance is calculated based on the one month LIBOR rate plus 2.5% and resets monthly. As long as LIBOR is to be deemed commercially reasonable, then LIBOR index will be used. LIBOR shall be replaced with an alternative or successor rate or index chosen by the bank in its reasonable discretion; and the Margin may also be adjusted by the bank in its reasonable discretion, giving due consideration to market convention for determining rates of interest on comparable loans. The line of credit contains certain financial covenants, with which the Company was in compliance as of December 27, 2020. As of December 27, 2020, there was no outstanding balance under the line of credit.

Note 5 - Retirement Plan

The Company maintains a 401(k) retirement plan ("Plan") covering substantially all of its employees who meet certain eligibility requirements. The Plan allows each employee participant an election to defer a percentage of his or her compensation up to the limitations as determined under federal law. In addition, the Company contributes a matching amount equal to 25% of 6% of the employee's elective deferral to the Plan. The Company, at the discretion of the Board of Directors, may make additional contributions to the Plan. During the year ended December 27, 2020, the Company's contribution to the Plan amounted to $253,503.

Note 6 - Operating Lease Obligations

The Company is party to non-cancelable operating lease agreements for its office in Waltham, Massachusetts expiring in 2031. Beginning is 2021, the Company is party to non-cancelable operating lease agreements for its offices in Plano, TX, Nashville, TN, and Fairfax, VA The leases call for a base rent plus increases in certain operating expenses. The Company is also party to non-cancelable operating lease agreements for other office facilities. The leases require minimum monthly rental payments plus certain operating costs.

During the year ended December 27, 2020 rent expense incurred by the Company under these and other leases, including operating costs, amounted to $1,303,567.

Note 6 - Operating Lease Obligations (Continued)

Future annual minimum operating lease payments due under these leases as of December 27, 2020 are as follows:

Year Ended	Amount
2021	$ 1,591,667
2022	1,264,027
2023	774,401
2024	770,420
2025	787,168
Thereafter	4,622,517
	$ 9,810,200

Note 7 - State Income Taxes

The provision for state income taxes for the year ended December 27, 2020 consists of the following:

Current	$ 348,282
Deferred	(127,000)
	$ 221,282

The Company files its tax returns on the cash basis of accounting.

The statutory state and effective income tax rate at December 27, 2020 is 2.9%.

Approximate deferred state income tax net liabilities are as follows:

Tax basis - cash accrual differences	$ (293,000)
Deferred compensation	169,000
	$ (124,000)

Deferred state income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Deferred state income tax asset and liability amounts included on the balance sheets results primarily from accrual to cash basis accounting changes in allowances, deferred compensation amounts, depreciation and other reporting differences.

Note 8 - Phantom Stock and Deferred Compensation Arrangements

The Company is a party to a guaranteed phantom stock agreement with an employee of the Company. Under the terms of the agreement, while employed and up to two years following termination of employment without cause, and upon the occurrence of certain events relating to changes in control, as defined, the employee is entitled to an amount equivalent to 10% of the value of the Company. Upon the occurrence of certain stated termination of employment events, the employee is entitled to his vested percentage, as defined, up to 10%. The Company's obligation in the event of a termination of employment varies based on the type of employment termination event that occurs and on the years of service provided by the employee. To the extent a balance becomes due by the Company on the employee as a result of a qualifying termination event, the amount due will be payable in five equal annual installments, plus interest at 6% per annum, beginning 30 days after a determination of fair value has been made. As of December 27, 2020 $5,731,000 of deferred compensation was accrued in connection with this agreement based on management's estimate of the Company's fair value. See also, Note 9, for additional detail on the level 3 fair value measurement.

In addition to the guaranteed phantom stock agreement the Company has entered into various non-guaranteed phantom stock agreements with key members of management. Payments under these agreements are conditioned upon employment at the Company as of the sale date, as such no amounts have been included in these financial statements. Subsequent to year end the Company was acquired and the phantom stock agreements were settled just prior to closing.

Note 9 - Fair Value Measurement

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, (ASC 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Note 9 - Fair Value Measurement (Continued)

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for the valuation of the agreement measured at fair value on a recurring basis:

The fair value of the Company's equity is estimated using a valuation made with unobservable inputs. The Company utilizes an income approach valuation technique, whereby the inputs are based upon the Company's current and projected earnings before interest, taxes, depreciation and amortization, discounted at approximately 30%, a risk adjustment rate determined by management, as well as other factors.

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at December 27, 2020:

	Liabilities at Fair Value as of December 27, 2020:			
	Level 1	Level 2	Level 3	Total
Deferred compensation payable	$ -	$ -	$ 5,731,000	$ 5,731,000

The following table represents the changes in level 3 instruments for the year ended December 27, 2020 on a recurring basis:

	Level 3 Liabilities Year Ended December 27, 2020
	Deferred Compensation Payable
Balance, beginning of year	$ 2,390,000
Estimated increase in value	3,341,000
Balance, end of year	$ 5,731,000

Note 10 - Contingencies

Legal Proceedings

From time to time, the Company has been involved in litigation incidental to their business. The outcome of any legal proceeding(s) is difficult to predict and may be resolved over an extended period of time.

Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic. The outbreak of the coronavirus pandemic has had a major impact on worldwide finances. The Company is closely monitoring its operations, liquidity, and capital resources to minimize any potential impact of this unprecedented situation. As of the date of issuance of these financial statements, the future impact to the Company's financial position is not known.

Note 11 - New Accounting Pronouncements

Recently Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, (ASU 2014-09) which provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The new guidance requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company adopted the new guidance, using the modified retrospective method applied to all contracts not completed as of December 30, 2019, and since the adoption of the new guidance was not material, no adjustment was made to opening retained earnings. The adoption of the guidance did not have a material impact on the Company's income statement.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-02, *Leases*, (ASU 2016-02), amending how entities account for leases. Under the new guidance, lessees are required to recognize a lease liability, measured on a discounted basis; and a right-of-use asset, for the lease term. The new guidance is effective for private company annual reporting periods beginning after December 15, 2021. Management is currently evaluating the impact on the financial statements and related disclosures.

Note 11 - New Accounting Pronouncements (Continued)

Recently Issued Accounting Pronouncements Not Yet Adopted (Continued)

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses*, (ASU 2016-13) amending how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model, which is a new impairment model based on expected losses. The new guidance is effective for private company annual reporting periods beginning after December 15, 2022. Management is currently evaluating the impact on the financial statements and related disclosures.

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

Note 12 - Correction of Errors

The Company identified errors relating to understatements of accounts payable, certain payroll liabilities and selling, general and administrative expenses (in the net amount of $933,000) as well as an overstatement in unbilled accounts receivables and revenue (in the net amount of $1,808,000) relating to prior periods. The cumulative effect of correcting these errors decreased opening retained earnings by approximately $2,741,000 net of taxes of approximately $83,000.

Note 13 - Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition on disclosure through June 16, 2021, the date the financial statements were available to be issued.

In April 2021, the Company was purchased by Kelly Services, Inc. (see Note 8).

Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed combined financial information of Kelly Services, Inc. (the “Company”), giving effect to the acquisition of Softworld, Inc. (“Softworld”), which includes the unaudited pro forma condensed combined balance sheet as of January 3, 2021 and the unaudited pro forma combined statement of earnings for the year ended January 3, 2021. The unaudited pro forma condensed combined financial information includes the historical results of the Company and Softworld after giving pro forma effect to the acquisition as described in this section and the accompanying notes.

The pro forma information should be read in conjunction with the the following:

- audited consolidated financial statements of the Company as of and for the year ended January 3, 2021 and the related notes included in the Company’s Annual Report on Form 10-K as filed with the SEC on February 18, 2021
- audited financial statements of Softworld as of and for the year ended December 27, 2020 and the related notes included as Exhibit 99.1 to this Current Report on Form 8-K/A

The pro forma financial information has been prepared by management for informational purposes only in accordance with Regulation S-X Article 11, Pro Forma Financial Information, as amended by the final rule, Amendments to Financial Disclosures About Acquired and Disposed Businesses, as adopted by the SEC on May 21, 2020.

The unaudited pro forma condensed combined financial information does not necessarily reflect what the combined company’s financial condition or results of operations would have been had the acquisition occurred on the dates as defined in the basis of presentation footnote. It may not be useful in predicting the future financial condition and results of operations of the combined company. The Company’s actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. The assumed accounting for the acquisition is based on provisional amounts and the associated purchase accounting is not final due to the limited amount of time that has passed since acquiring Softworld. The preliminary allocation of the purchase price to the acquired assets and assumed liabilities of Softworld was based upon the preliminary estimate of fair values. The unaudited pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. All pro forma adjustments and their underlying assumptions are described more fully in the notes to the unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of January 3, 2021
(In millions of dollars)

	Historical				
	Kelly Services, Inc.	Softworld, Inc.	Transaction Accounting Adjustments	Notes	Pro Forma Combined
Assets					
Current Assets					
Cash and equivalents	$ 223.0	$ 5.7	$ (220.4)	5a	$ 8.3
Trade accounts receivable, less allowances of $13.3 and $0.2, respectively	1,265.2	18.3	—		1,283.5
Prepaid expenses and other current assets	61.4	0.5	—		61.9
Total current assets	1,549.6	24.5	(220.4)		1,353.7
Noncurrent Assets					
Net property and equipment	41.0	1.2	—		42.2
Operating lease right-of-use assets	83.2	—	7.9	5b	91.1
Deferred taxes	282.0	—	—		282.0
Goodwill, net	3.5	—	130.7	5c	134.2
Investment in Persol Holdings	164.2	—	—		164.2
Investment in equity affiliate	118.5	—	—		118.5
Other assets	319.9	0.3	80.5	5d	400.7
Total noncurrent assets	1,012.3	1.5	219.1		1,232.9
Total Assets	$ 2,561.9	$ 26.0	$ (1.3)		$ 2,586.6

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of January 3, 2021
(In millions of dollars)

	Historical				
	Kelly Services, Inc.	Softworld, Inc.	Transaction Accounting Adjustments	Notes	Pro Forma Combined
Liabilities and Stockholders' Equity					
Current Liabilities					
Short-term borrowings	$ 0.3	$ —	$ —		$ 0.3
Accounts payable and accrued liabilities	536.8	4.5	(0.9)	5e, 5f	540.4
Operating lease liabilities	19.6	—	1.2	5b	20.8
Accrued payroll and related taxes	293.0	6.3	—		299.3
Accrued workers' compensation and other claims	22.7	—	—		22.7
Income and other taxes	53.2	0.2	0.2	5g, 5j	53.6
Total current liabilities	925.6	11.0	0.5		937.1
Noncurrent Liabilities					
Operating lease liabilities	67.5	—	6.7	5b	74.2
Accrued payroll and related taxes	58.5	5.7	(5.7)	5h	58.5
Accrued workers' compensation and other claims	42.2	—	—		42.2
Accrued retirement benefits	205.8	—	—		205.8
Other long-term liabilities	59.3	0.1	(0.1)	5g	59.3
Total noncurrent liabilities	433.3	5.8	0.9		440.0
Stockholders' Equity					
Capital stock, $1.00 par value					
Class A common stock, 100.0 shares authorized; 36.7 shares issued at 2020	36.7	—	—		36.7
Class B common stock, 10.0 shares authorized; 3.4 shares issued at 2020	3.4	—	—		3.4
Treasury stock, at cost					—
Class A common stock, 0.8 shares at 2020	(16.5)	—	—		(16.5)
Class B common stock	(0.6)	—	—		(0.6)
Paid-in capital	21.3	—	—		21.3
Earnings invested in the business	1,162.9	9.2	(2.7)	5i	1,169.4
Accumulated other comprehensive income (loss)	(4.2)	—	—		(4.2)
Total stockholders' equity	1,203.0	9.2	(2.7)		1,209.5
Total Liabilities and Stockholders' Equity	$ 2,561.9	$ 26.0	$ (1.3)		$ 2,586.6

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information.

Unaudited Pro Forma Combined Statement of Earnings
For the Year Ended January 3, 2021
(In millions of dollars except per share data)

	Historical										
	Kelly Services, Inc.		Softworld, Inc.		Transaction Accounting Adjustments		Notes	Pro Forma Combined	
Revenue from services	$	4,516.0	$	110.5	$	—		$	4,626.5
Cost of services		3,688.4		71.4		—			3,759.8
Gross profit		827.6		39.1		—			866.7
Selling, general and administrative expenses		805.6		27.8		8.2	5d		841.6
Goodwill impairment charge		147.7		—		—			147.7
Gain on sale of assets		(32.1)		—		—			(32.1)
Earnings (loss) from operations		(93.6)		11.3		(8.2)			(90.5)
Gain (loss) on investment in Persol Holdings		(16.6)		—		—			(16.6)
Other income (expense), net		3.4		(3.6)		2.0	5f, 5h		1.8
Earnings (loss) before taxes and equity in net earnings (loss) of affiliate		(106.8)		7.7		(6.2)			(105.3)
Income tax expense (benefit)		(34.0)		0.2		0.2	5g, 5j		(33.6)
Net earnings (loss) before equity in net earnings (loss) of affiliate		(72.8)		7.5		(6.4)			(71.7)
Equity in net earnings (loss) of affiliate		0.8		—		—			0.8
Net earnings (loss)	$	(72.0)	$	7.5	$	(6.4)		$	(70.9)
Basic earnings (loss) per share	$	(1.83)						$	(1.81)
Diluted earnings (loss) per share	$	(1.83)						$	(1.81)
Average shares outstanding (millions):									
Basic		39.3							39.3
Diluted		39.3							39.3

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Description of the Transaction

On April 5, 2021, Kelly Services, Inc. (the “Company”), acquired 100% of the shares of Softworld, Inc. (“Softworld”) for $215 million of cash, subject to working capital adjustments. Under terms of the purchase agreement, the purchase price was adjusted for cash held by Softworld at the closing date and estimated working capital adjustments resulting in the Company paying cash of $220.4 million in addition to $1.6 million of consideration relating to net future tax benefits to the Company that are payable back to the former owners of Softworld in 2022. In connection with the transaction and included in the cash paid, the parties entered into an escrow agreement in which the Company deposited $2.0 million to be held pending finalization of net working capital adjustments.

2. Basis of Presentation

The unaudited pro forma condensed combined balance sheet gives effect to the acquisition of Softworld as if the acquisition occurred on January 3, 2021. The pro forma adjustments required to reflect the acquired assets and assumed liabilities of Softworld are based on the audited statements of Softworld as of December 27, 2020. Softworld’s fiscal year-end date of December 27, 2020 was combined with the Company’s fiscal year-end date of January 3, 2021; the difference in the period end dates is within the 93-day requirement in accordance with Regulation S-X Article 11. The Company’s fiscal year 2020 included 53 weeks and Softworld’s fiscal 2020 included 52 weeks. The pro forma combined statement of earnings for the year ended January 3, 2021 gives effect to the Softworld acquisition as if it occurred on December 30, 2019.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical financial information of the Company and Softworld and certain fair value adjustments in accordance with Accounting Standards Codification (“ASC”) 805. The acquisition method of accounting under U.S. generally accepted accounting principles requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The unaudited pro forma condensed combined financial information does not necessarily reflect what the combined company’s financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The Company’s actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein.

3. Accounting Policies

At this time, the Company is not aware of any material differences in accounting policies and financial statement classifications that would have a material impact on the pro forma financial information with the exception of Accounting Standards Update (“ASU”) 2016-02, Leases. Since Softworld is not an SEC registrant, its adoption date for ASU 2016-02 would have been January 1, 2022. For purposes of the pro forma information, we have assumed that Softworld’s adoption of ASU 2016-02 occurred on December 30, 2019.

The Company will continue to conduct a review of Softworld’s accounting policies during its integration in an effort to determine if there are any material differences that require reclassification of Softworld’s revenues, expenses, assets or liabilities to conform to the Company’s accounting policies and classifications. As a result of that review, the Company may identify further differences between the accounting policies of the two companies that, when conformed, could have a material impact on the pro forma financial information.

4. Estimated Purchase Price Consideration

The transaction has been accounted for as a business combination using the acquisition method of accounting in accordance with ASC 805. The initial purchase price to acquire Softworld has been allocated to the assets acquired and liabilities assumed based on the audited statements of Softworld as of December 27, 2020. Due to the limited amount of time that has passed since acquiring Softworld, the purchase price allocation for this acquisition is preliminary and could change.

The consideration transferred and estimated fair value of assets acquired and liabilities assumed using Softworld's audited balance sheet as of December 27, 2020 is presented as follows in millions of dollars:

	Amount	Notes
Consideration transferred		
Cash consideration for outstanding shares	$ 220.4	(a)
Fair value of identifiable assets acquired and liabilities assumed		
Cash	$ 5.7	
Trade accounts receivable	18.3	
Prepaid expenses and other current assets	0.5	
Net property and equipment	1.2	
Operating lease right-of-use assets	7.9	(b)
Intangibles	80.5	(c)
Other assets, noncurrent	0.3	
Total identifiable assets acquired	114.4	
Accounts payable and accrued liabilities, current	4.5	
Operating lease liabilities, current	1.2	(b)
Accrued payroll and related taxes, current	6.3	
Income and other taxes, current	0.2	
Operating lease liabilities, noncurrent	6.7	(b)
Accrued payroll and related taxes, noncurrent	5.7	
Other long-term liabilities	0.1	
Total identifiable liabilities assumed	24.7	
Total identifiable net assets	89.7	
Goodwill	130.7	(d)
Net assets acquired	$ 220.4	

(a) Represents cash consideration transferred of $220.4 million for Softworld's outstanding shares. This excludes $2.6 million of future tax benefits to the Company that are payable back to Softworld in 2022, partially offset by a maximum of $1.0 million of indemnification related to tax liabilities. These tax matters are not included for purposes of the unaudited pro forma condensed combined balance sheet as they would not have existed had the acquisition occurred prior to the beginning of Softworld's fiscal 2021.

(b) Assets and liabilities arising from the adoption of ASC 842. Refer to the transaction accounting adjustments footnote for further description.

(c) Intangibles reflect the fair value as of the date of acquisition. Refer to the transaction accounting adjustments footnote for further descriptions of the intangibles.

(d) Goodwill generated from the acquisition was primarily attributable to expanding market potential and the expected synergies from combining operations. All of the goodwill is expected to be deductible for tax purposes.

5. Transaction Accounting Adjustments

(a) Represents the cash consideration of $220.4 million paid by the Company to acquire Softworld based on the fair value of the net assets to be acquired as presented in the Estimated Purchase Price Consideration footnote as of January 3, 2021.

(b) As a result of the different effective dates for ASC 842 on the accounting for leases for non-public entities, Softworld had not yet adopted the new standard as of January 3, 2021. The unaudited pro forma condensed combined balance sheet is adjusted for the estimated impact of ASC 842, assuming Softworld had adopted this standard as of December 30, 2019. The adjustments include increases to right-of-use operating lease assets of $7.9 million, current portion of operating lease liabilities of $1.2 million and long-term operating lease liabilities of $6.7 million.

(c) Goodwill represents the excess of the purchase price over the fair value of the net assets as adjusted in the unaudited pro forma condensed combined balance sheet as of January 3, 2021.

(d) Represents the estimated fair value of the intangibles acquired and the related amortization for the full year. Intangibles consist of customer relationships, trade names and trademarks, and non-compete agreements. The customer relationships were valued using the multi-period excess earnings method, the trade names and trademarks were valued using the relief-from-royalty method and the non-compete agreements were valued using the with-and-without method. The following table presents the estimated fair values, useful lives and amortization for the intangibles as if they were amortized for the full year ended January 3, 2021. The intangibles will have no residual value.

	Estimated fair value (In millions)	Useful life (Years)	Amortization for the year-ended January 3, 2021 (In millions)
Customer relationships	$ 56.0	10	$ 5.6
Trade names and trademarks	23.1	10	2.3
Non-compete agreements	1.4	5	0.3
Total	$ 80.5		$ 8.2

(e) Adjustment to remove the $2.2 million distribution payable to Softworld's historical owner under its former S Corporation status which was settled prior to the close of the transaction.

(f) Represents the accrual of an additional $1.3 million of transaction costs incurred by the Company subsequent to January 3, 2021. These costs are not reflected in the historical consolidated balance sheet of the Company as of January 3, 2021.

(g) Represents the adjustment to remove the $0.2 million of income taxes payable and related expense and $0.1 million of deferred state income taxes of Softworld.

(h) Represents the elimination of Softworld's $5.7 million deferred compensation liability and the related $3.3 million fair value adjustment for its historical phantom stock agreement. The settlement of the phantom stock agreement was treated as a transaction expense of the seller and the liability was settled prior to the close of the transaction.

(i) Adjustment to remove Softworld's historical accumulated retained earnings and the impact of the various adjustments to the unaudited pro forma combined statement of earnings. These adjustments include: the elimination of the distribution payable, deferred compensation liabilities, income taxes payable and deferred state income taxes, as well as the additional transaction expenses and pro forma tax expense as discussed in the relevant notes.

(j) Represents the tax expense relating to Softworld's historical results of operations and the pro forma adjustments reflected on the pro forma combined statement of earnings of $0.4 million using the Company's statutory tax rate of 25.35%. The tax rate utilized is not necessarily indicative of the effective tax rate of the combined company.