



2018 ANNUAL REPORT

WHAT'S NEXT.

KELLY®

I N M E M O R Y O F



TERENCE E. ADDERLEY

1933 - 2018

In 2018, Kelly said farewell to Terence (Terry) E. Adderley, the company's longest-serving CEO and former chairman of the board.

Following in the footsteps of his father, William (Russ) Kelly, who founded the temporary staffing industry, Terry guided Kelly Services through decades of significant achievement and exponential growth. Under Terry's visionary leadership, wise counsel and love – for his company, clients, employees, and community – Kelly became a global leader in the workforce solutions industry he helped to create.

Terry ensured the Company never waived from its heritage of strong ethical standards and a commitment to excellence. He will be most remembered for the lessons he instilled in Kelly employees to act with integrity, treat every person with respect, and always do the right thing.



CORPORATE PROFILE

As founder of the staffing industry, Kelly has been connecting great people and great companies for the past seven decades. Small and large businesses alike trust our expertise in providing solutions that span the entire spectrum of staffing, outsourcing, and consulting. We're always thinking about what's next in the evolving world of work, and we help people adopt new ways of thinking and embrace the value of all work styles in the workplace.

Our values are built upon a tradition of integrity, quality, and service excellence – keys to long-standing relationships we create with customers, employees, suppliers, and the communities in which we live and work. Kelly has three operating segments: Americas Staffing, International Staffing, and Global Talent Solutions (GTS). We provide commercial and professional/technical staffing through our branch networks in our Americas and International segments and, in APAC, we provide staffing solutions to customers through PersolKelly Asia Pacific, our joint venture with Persol Holdings, a leading provider of HR solutions in Japan. For the U.S. education market, Kelly Educational Staffing is the leading provider of substitute teachers to more than 7,000 schools nationwide.

Kelly provides a suite of integrated talent fulfillment and outcome-based solutions through its GTS segment, which delivers these solutions on a global

basis. GTS provides Master Service Provider (MSP); Recruitment Process Outsourcing; Business Process Outsourcing; and Advisory and Talent Fulfillment solutions that help customers plan for, manage, and execute their acquisition of contingent labor, full-time labor, and free agents. This assists our customers in gaining access to service providers and qualified talent quickly, at competitive rates, with minimized risk. We also offer both commercial and professional/technical staffing on a temporary, temporary-to-hire, and direct-hire basis across a variety of industries and specializations.

In 2018, Kelly directly employed more than 500,000 people around the world, in addition to having a role in connecting hundreds of thousands more with work through our global network of talent suppliers and partners. Revenue in 2018 totaled \$5.5 billion.

Given the worldwide span of Kelly's workers, clients, suppliers and partners, we recognize the global impact of our business practices and are deeply committed to corporate sustainability. Our commitments are centered on six pillars of development: Employees & People; Ethics; Engagement; Occupational Health, Safety, and Environment; Supply Chain and Customer Relations; and Communication, Evaluation, and Reporting. More information can be found at kellyservices.com, or connect with us on Facebook, LinkedIn or Twitter.

BY THE NUMBERS

REVENUE

\$5.5 billion

GROSS PROFIT

17.6 percent

EXPENSES

\$884.8 million

EARNINGS FROM OPS

\$87.4 million

EPS

\$0.58

ROS (from operations)

1.6 percent

AMERICAS STAFFING REVENUE

\$2.4 billion

GLOBAL TALENT SOLUTIONS REVENUE

\$2.0 billion

INTERNATIONAL STAFFING REVENUE

\$1.1 billion

TO OUR SHAREHOLDERS

2018 was a year of strategic and operational progress that demonstrated Kelly's commitment to profitable growth. We delivered solid full-year results in a tight labor market, effectively managed our costs, and invested in our future. A growing U.S. economy and historic low unemployment rates made recruiting more challenging in 2018, and we experienced increased time and expense to fill positions. Nevertheless, we made steady progress against our strategic priorities, created opportunities to improve margins through organic growth, and sought out new paths to grow through inorganic investments. The value drivers we created in 2018 through strategic focus, initiatives, and investments will help power Kelly's future success.

We paused to say farewell to our long-time chairman and CEO Terence E. "Terry" Adderley late in the year, first upon his retirement from Kelly after more than six decades of leadership, and then again upon his passing, just three weeks later. We are fortunate to have had such a capable leader in Terry, and in his father before him, William Russell Kelly, both of whom were founders and titans of the staffing and workforce solutions industries. As I said at his retirement, Terry served Kelly with distinction during his tenure, and his presence – both on the board and as its chairman – will be greatly missed. I am proud to work for a company whose values are built upon a tradition of integrity, quality, and service excellence. All of us at Kelly will strive to fulfill their legacy and our Noble Purpose of connecting people to work in ways that enrich their lives.

Upon Terry's retirement, we were pleased to announce the election of Donald R. Parfet as our next chairman of the board. Don has served as Kelly's lead director since 2012 and has extensive financial and operating experiences as an executive with responsibility for numerous global businesses.

BECOMING A MORE FOCUSED COMPANY

In 2018 we became a more focused company. We sold our healthcare and legal specialty operations, which allows us to place a greater focus on our commercial, education, engineering, science, and workforce solutions specialties. In education, we successfully integrated our 2017 acquisition of Teachers On Call. We also started to invest in our commercial staffing operations, particularly in the U.S. branch network, placing additional focus on improving operational efficiency and creating growth through additional specialization.

MAKING KEY STRATEGIC INVESTMENTS

In engineering, we identified two companies that would immediately expand our engineering portfolio: on January 2, 2019, we acquired Global Technology Associates and NextGen Global Resources, both leaders in the growing 5G telecommunication market. These acquisitions position Kelly as one of the leading engineering workforce solutions companies in this fast-growing technology space. Both companies provide services to the largest carriers and Original Equipment Manufacturers in the telecommunication industry.

INVESTING IN THE FUTURE OF WORK

Other investments in 2018 included our ongoing commitment to embracing the future of work, as the Kelly Innovation Fund participated in the seed fundraising round for Kenzie Academy, a U.S. tech apprenticeship program that develops modern tech workers. To strengthen our position in the portion of the workforce that participates as independent contractors, we made a minority equity investment in Business Talent Group (BTG), a U.S.-based marketplace that connects highly skilled independent talent to some of the world's largest businesses.



INVESTING IN TECHNOLOGY

We continued to make investments in technology during 2018, particularly in solutions that support greater efficiency in finding talent to meet our customers' needs. We are making substantial investments in our front and middle office platforms, which will streamline the processes and workflows associated with recruiting, onboarding, and reassigning workers. These investments will create the platform from which we can deploy operational improvements that will enhance the experience of the hundreds of thousands of job seekers who interact and work with Kelly each year. Our focus on improving the "Talent Experience" is a significant one and involves extensive quantitative and qualitative research that is informing the operational improvements we are making. Our objective is to create an exceptional Kelly experience that results in highly satisfied talent who are likely to work with Kelly in the future.

REVITALIZING OUR BRAND

Late in 2018, Kelly introduced our revitalized brand identity with the tagline: **What's Next**. This identity signals that we will boldly approach the future of work while championing independent workers and workstyles, and their value in the modern workplace. We are reintroducing Kelly to

the world and embracing and activating our refreshed Kelly brand, both internally and externally. Visit our U.S. website to view our "Temporary is Beautiful" film or follow Kelly's social media channels to see our unique point of view that challenges the outdated portrayals of temporary work.

LOOKING AHEAD

Kelly continues to focus on accelerating the execution of our strategic plan and making the necessary investments and adjustments to advance that strategy. Our objective is to become an even more competitive and profitable company, and we are reshaping our business to make that goal a reality. We will measure our progress against both revenue and gross profit growth, as well as earnings and conversion rate (the rate at which gross profit dollars are converted to earnings from operations). We expect:

- ▶ To grow higher-margin specialty and outsourced solutions, creating a more balanced portfolio that yields benefits from improved mix;
- ▶ To integrate our investments in specialty solutions with significant growth opportunities, such as our acquisitions of Global Technology Associates and NextGen Global Resources;
- ▶ To deliver structural improvements in costs through investments in technology, delivery models, and process automation; and
- ▶ To sustain our momentum in delivering year-over-year improvements in our conversion rate.

Our ability to deliver good results in a challenging business environment is a testament to the flexibility and resourcefulness of Kelly's teams.

Looking ahead, we remain focused on our strategy to invest in the people, services, and technology that will help us capitalize on the expanding specialty talent solutions markets, where there are abundant opportunities for growth and increased profitability. We hope you will accompany us on this journey.



George S. Corona

President and Chief Executive Officer

March 2019



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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the fiscal year ended December 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 0-1088

KELLY SERVICES, INC.

(Exact Name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

38-1510762

(IRS Employer Identification Number)

999 West Big Beaver Road, Troy, Michigan

(Address of Principal Executive Office)

48084

(Zip Code)

(248) 362-4444

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$709.7 million.

Registrant had 35,440,000 shares of Class A and 3,432,072 of Class B common stock, par value \$1.00, outstanding as of February 3, 2019.

Documents Incorporated by Reference

The proxy statement of the registrant with respect to its 2019 Annual Meeting of Stockholders is incorporated by reference in Part III.

PART I

Unless the context otherwise requires, throughout this Annual Report on Form 10-K the words “Kelly,” “Kelly Services,” “the Company,” “we,” “us” and “our” refer to Kelly Services, Inc. and its consolidated subsidiaries.

ITEM 1. BUSINESS.

History and Development of Business

Founded by William R. Kelly in 1946, Kelly Services® pioneered an industry that connects people with work in ways that enrich their lives. At our inception we helped usher in and embolden a workforce of women, opening doors and creating opportunities where none had existed. As work evolved we equipped people with the skills to master the technologies of the day: launching the first-of-its-kind online learning center for scientists; creating testing and training packages for new office programs; and launching skill builders to align with new light industrial protocols. With each advance we have empowered people to meet the needs of a changing marketplace, and enabled companies to access skilled talent that can move their businesses forward.

As work has evolved so has our range of solutions, growing over the years to reflect the changing needs of our customers and the changing nature of work itself. We have progressed from a United States-based company concentrating primarily on traditional office staffing into a workforce solutions leader delivering expertise in a number of specialty services. While ranking as one of the world’s largest scientific staffing providers, we also place professional and technical employees at all levels in engineering, IT and finance. These services complement our expertise in office services, contact center, light industrial and electronic assembly staffing, as well as our leading position in the K-12 educational staffing market in the U.S. As work has evolved and workforce management has become more complex, we have also developed a talent supply chain management approach to help many of the world’s largest companies plan for and manage their workforce. Innovative solutions supporting this approach span outsourcing, consulting, recruitment, talent advisory, career transition and vendor management services.

Geographic Breadth of Services

Headquartered in Troy, Michigan, Kelly provides workforce solutions to a diversified group of customers in three regions: the **Americas; Europe, the Middle East, and Africa (“EMEA”)**; and **Asia Pacific (“APAC”)**. Our customer base spans a variety of industries and includes more than 90 percent of the *Fortune 100*™ companies.

In 2018, we assigned approximately 500,000 temporary employees to a variety of customers around the globe.

Description of Business Segments

Our operations are divided into three business segments: **Americas Staffing, Global Talent Solutions (“GTS”) and International Staffing**. In July 2016, we expanded our joint venture with Persol Holdings (formerly Temp Holdings) to form PersolKelly Asia Pacific (the “JV”) and moved our APAC staffing operations into the JV. We provide staffing solutions through our branch networks in our Americas and International operations. In addition to staffing solutions, we also provide a suite of innovative talent fulfillment and outcome-based solutions through our GTS segment, which delivers integrated talent management solutions to meet customer needs across the entire spectrum of talent categories. Using talent supply chain strategies, GTS helps customers design, execute, and manage workforce programs that enable them to connect with talent across all work styles (full-time, contract, temporary, etc.), gain access to a vast network of service providers, and achieve their business goals on time and on budget.

Americas Staffing

Our Americas Staffing segment represents the Company’s branch-delivered staffing business in the U.S., Puerto Rico, Canada, Mexico and Brazil. This segment delivers temporary staffing, as well as direct-hire placement services, in a number of specialty staffing services, including: *Office*, providing trained employees for data entry, clerical and administrative support roles across numerous industries; *Education*, supplying schools nationwide with instructional and non-instructional employees; *Marketing*, providing support staff for seminars, sales and trade shows; *Electronic Assembly*, providing assemblers, quality control inspectors and technicians; *Light Industrial*, placing maintenance workers, material handlers and assemblers; *Science*, providing all levels of scientists and scientific and clinical research workforce solutions; *Engineering*, supplying engineering professionals across all disciplines, including aeronautical, chemical, civil/structural, electrical/instrumentation, environmental, industrial, mechanical, petroleum, pharmaceutical, quality and telecommunications; *Information Technology*, placing IT specialists across all disciplines; *Creative Services*, placing creative talent in the spectrum of creative services positions; and

Finance and Accounting, serving the needs of corporate finance departments, accounting firms and financial institutions with all levels of financial professionals. We also offer direct-hire placement services across all of these specialties.

International Staffing

Our International Staffing segment represents the Company's branch-delivered staffing business in the EMEA region, as well as the Company's APAC region staffing business prior to the transaction to form the JV in July 2016. International Staffing provides a similar range of staffing services as described for our Americas Staffing segment above, including: Office, Engineering, Finance and Accounting, IT and Science. Additional service areas include: *Catering and Hospitality*, providing chefs, porters and hospitality representatives; and *Industrial*, supplying manual workers to semi-skilled professionals in a variety of trade, non-trade and operational positions.

GTS

Our GTS segment combines the delivery structure of the Company's outsourcing and consulting group and centrally delivered staffing business. It reflects the trend of customers towards the adoption of holistic talent supply chain solutions which combine contingent labor, full-time hiring and outsourced services. Services in this segment include: Centrally delivered staffing for large accounts; *Contingent Workforce Outsourcing ("CWO")*, delivering contingent labor to customers using a managed service provider model; *Recruitment Process Outsourcing ("RPO")*, offering end-to-end talent acquisition solutions, including customized recruitment projects; *Business Process Outsourcing ("BPO")*, offering full staffing and operational management of non-core functions or departments; *Payroll Process Outsourcing ("PPO")*, providing centralized payroll processing solutions for our customers, and *KellyConnect*, offering contact center staffing solutions which focus on delivering talent to a customer's call center operations. This segment also provides career transition/outplacement services and talent advisory services.

Financial information regarding our industry segments is included in the Segment Disclosures footnote in the notes to our consolidated financial statements presented in Part II, Item 8 of this report.

Business Objectives

Kelly's philosophy is rooted in our conviction that our business can and does make a difference on a daily basis—for our customers, in the lives of our employees and talent networks, in the local communities we serve and in the broader economy. We aspire to be a destination for top talent and a strategic business partner for our customers. Our solutions are designed to connect with talent across targeted specialties and a variety of flexible work styles, and to offer customers access to workforce solutions that can be customized as they seek to operate more efficient and competitive organizations. To achieve these goals, we continue to adopt forward-looking technologies and innovative business practices that can drive success in a dynamic market.

With more than one-third of the world's workforce now participating as independent workers, more companies are adopting strategies that recognize contingent labor, consultants and project-based work as keys to their ongoing success. We continue to refine our core competencies to help them connect with talent and realize their business objectives. Kelly offers world-class staffing on a temporary and direct placement basis, as well as a comprehensive array of outsourcing, consulting and talent advisory services. Kelly continues to target our areas of investment and expertise to solve our customers' workforce challenges and create opportunity for talent in the changing marketplace.

Business Operations

Service Marks

We own numerous service marks that are registered with the United States Patent and Trademark Office, the European Union Community Trademark Office and numerous individual country trademark offices.

Seasonality

Our quarterly operating results are affected by the seasonality of our customers' businesses. With the exception of our education business, demand for staffing services historically has been lower during the first quarter, and typically increases during the remainder of the year.

Working Capital

Our working capital requirements are primarily generated from 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.

Customers

Kelly's client portfolio spans companies of all sizes, ranging from local and mid-sized businesses to the Fortune 500. In 2018, an estimated 51% of total Company revenue was attributed to 100 large customers. Our largest single customer accounted for approximately five percent of total revenue in 2018.

Government Contracts

Although we conduct business under various federal, state, and local government contracts, no single one accounts for more than three percent of total Company revenue in 2018.

Competition

The worldwide workforce solutions industry is competitive and highly fragmented. In the United States, we compete with other firms that operate nationally, and with thousands of smaller companies that compete in varying degrees at local levels. Additionally, several similar staffing companies compete globally. In 2018, our largest competitors were Adecco S.A., Randstad Holding N.V., ManpowerGroup Inc., Allegis Group and Recruit Holdings.

Key factors that influence our success are quality of service, price and breadth of service.

Quality of service is highly dependent on the availability of qualified, competent talent, and our ability to recruit, screen, train, retain and manage a pool of employees who match the skills required by particular customers. During an economic downturn, we must balance competitive pricing pressures with the need to retain a qualified workforce. Price competition in the staffing industry is intense, particularly for office clerical and light industrial personnel, and pricing pressure from customers and competitors continues to be significant.

Breadth of service, or ability to manage staffing suppliers, has become more critical as customers seek a single supplier to manage all their staffing needs. Kelly's talent supply chain management approach seeks to address this requirement for our larger customers, enabling us to deliver talent wherever and whenever they need it around the world.

Environmental Concerns

Because we are involved in a service business, federal, state or local laws that regulate the discharge of materials into the environment do not materially impact us.

Employees

We employ approximately 1,100 people at our corporate headquarters in Troy, Michigan, and approximately 6,800 staff members in our U.S. and international network of branch offices. In 2018, we recruited approximately 500,000 temporary employees on behalf of customers around the globe.

While services may be provided inside the facilities of customers, we remain the employer of record for our temporary employees. We retain responsibility for employee assignments, including workers' compensation insurance, the employer's

share of all applicable payroll taxes and the administration of the employee's share of these taxes. We offer access to various health and other benefit programs to our employees.

Foreign Operations

For information regarding sales, earnings from operations and long-lived assets by domestic and foreign operations, please refer to the information presented in the Segment Disclosures footnote in the notes to our consolidated financial statements, presented in Part II, Item 8 of this report.

Access to Company Information

We electronically file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the Securities and Exchange Commission ("SEC"). The public may read and copy any of the reports that are filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically.

We make available, free of charge, through our website, and by responding to requests addressed to our senior vice president of investor relations, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports. These reports are available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website address is: www.kellyservices.com. The information contained on our website, or on other websites linked to our website, is not part of this report.

ITEM 1A. RISK FACTORS.

We operate in a highly competitive industry with low barriers to entry and may be unable to compete successfully against existing or new competitors.

The worldwide staffing services market is highly competitive with limited barriers to entry. We compete in global, national, regional and local markets with full-service and specialized temporary staffing and consulting companies. While the majority of our competitors are significantly smaller than us, several competitors, including Adecco S.A., Randstad Holding N.V., ManpowerGroup Inc., Allegis Group and Recruit Holdings, are considerably larger than we are and have more substantial marketing and financial resources. Additionally, the emergence of online staffing platforms or other forms of disintermediation may pose a competitive threat to our services, which operate under a more traditional staffing business model. Price competition in the staffing industry is intense, particularly for the provision of office clerical and light industrial personnel. We expect that the level of competition will remain high, which could limit our ability to maintain or increase our market share or profitability.

The number of customers distributing their staffing service purchases among a broader group of competitors continues to increase which, in some cases, may make it more difficult for us to obtain new customers, or to retain or maintain our current share of business, with existing customers. We also face the risk that our current or prospective customers may decide to provide similar services internally. As a result, there can be no assurance that we will not encounter increased competition in the future.

Our business is significantly affected by fluctuations in general economic conditions.

Demand for staffing services is significantly affected by the general level of economic activity and employment in the United States and the other countries in which we operate. When economic activity increases, temporary employees are often added before full-time employees are hired. As economic activity slows, however, many companies reduce their use of temporary employees before laying off full-time employees. Significant swings in economic activity historically have had a disproportionate impact on staffing industry volumes. We may not fully benefit from times of increased economic activity should we experience shortages in the supply of temporary employees. We may also experience more competitive pricing pressure and slower customer payments during periods of economic downturn. A substantial portion of our revenues and earnings are generated by our business operations in the United States. Any significant economic downturn in the United States or certain other countries in which we operate could have a material adverse effect on our business, financial condition and results of operations.

Technological advances may significantly disrupt the labor market and weaken demand for human capital at a rapid rate.

Our success is directly dependent on our customers' demands for talent. As technology continues to evolve, more tasks currently performed by people may be replaced by automation, robotics, machine learning, artificial intelligence and other technological advances outside of our control. This trend poses a risk to the staffing industry as a whole, particularly in lower-skill job categories that may be more susceptible to such replacement.

Our business strategy may be insufficient or not achieve its intended effects.

Our business strategy focuses on driving growth in higher margin specialties. We have made targeted investments, adjusted our operating models and increased the resources necessary for driving sustainable growth within our targeted higher-margin solutions. If we are unsuccessful in executing our strategy, we may not achieve either our stated goal of strong revenue growth or the intended productivity improvements, which could negatively impact profitability. Even if effectively executed, our strategy may prove insufficient in light of changes in market conditions, technology, competitive pressures or other external factors.

We are at risk of damage to our brand, which is important to our success.

Our success depends, in part, on the goodwill associated with our brand. Because we assign employees to work under the direction and supervision of our customer at work locations not under Kelly's control, we are at risk of our employees engaging in unauthorized conduct that could harm our reputation. Our Kelly Educational Staffing product is particularly susceptible to this exposure. An occurrence that damages Kelly's reputation could cause the loss of current and future customers, additional regulatory scrutiny and liability to third parties.

Our intellectual property assets could be infringed upon or compromised, and there are limitations to our ability to protect against such events.

Our success is dependent in part on our proprietary business processes, our intellectual property and our thought leadership. To protect those rights, we depend upon protections afforded by the laws of the various countries in which we operate, as well as contractual language and our own enforcement initiatives. These defenses may not be sufficient to fully protect us or to deter infringement or other misappropriation of our trade secrets and other intellectual property. In addition, third parties may challenge the validity or enforceability of our intellectual property rights. We also face the risk that third parties may allege that the operation of our business infringes or otherwise misappropriates intellectual property rights that they own or license. Losses or claims of this nature could cause us to incur significant expense, harm our reputation, reduce our competitive advantages or prevent us from offering certain services or solutions. The remedies available to us may be limited or leave us without full compensation.

If we fail to successfully develop new service offerings, we may be unable to retain our current customers and gain new customers and our revenues would decline.

The process of developing new service offerings requires accurate anticipation of customers' changing needs and emerging technological trends. This may require that we make long-term investments and commit significant resources before knowing whether these investments will eventually result in service offerings that achieve customer acceptance and generate the revenues required to provide desired returns. If we fail to accurately anticipate and meet our customers' needs through the development of new service offerings or do not successfully deliver new service offerings, our competitive position could be weakened and that could materially adversely affect our results of operations and financial condition.

As we increasingly offer services outside the realm of traditional staffing, including business process outsourcing, we are exposed to additional risks which could have a material adverse effect on our business.

Our business strategy focuses on growing our outsourcing and consulting business, including business process outsourcing, where we provide operational management of our customers' non-core functions or departments. This could expose us to certain risks unique to that business, including product liability or product recalls. Although we have internal vetting processes intended to control such risks, there is no assurance that these processes will be effective. Additionally, while we maintain insurance in types and amounts we believe are appropriate in light of the aforementioned exposures, there can also be no assurance that such insurance policies will remain available on reasonable terms or be sufficient in amount or scope of coverage.

We are increasingly dependent on third parties for the execution of critical functions.

We do not maintain our own vendor management technology, and we have outsourced several other critical applications or business processes to external providers, including cloud-based services. We have elected to enter into supplier partnerships rather than establishing or maintaining our own operations in some of the territories where our customers require our services. We do not maintain a controlling interest in our expanded staffing joint venture in Asia Pacific (PersolKelly Asia Pacific) and have elected to rely on the joint venture to provide certain back office and administrative services to our GTS operations in the region. The failure or inability to perform on the part of one or more of these critical suppliers or partners could cause significant disruptions and increased costs.

Past and future acquisitions may not be successful.

From time to time, we acquire and invest in companies throughout the world. Acquisitions involve a number of risks, including the diversion of management's attention from its existing operations, the failure to retain key personnel or customers of an acquired business, the failure to realize anticipated benefits such as cost savings and revenue enhancements, the potentially substantial transaction costs associated with acquisitions, the assumption of unknown liabilities of the acquired business and the inability to successfully integrate the business into our operations. Potential impairment losses could result if we overpay for an acquisition. There can be no assurance that any past or future acquired businesses will generate anticipated revenues or earnings.

Investments in equity affiliates expose us to additional risks and uncertainties.

We participate, or may participate in the future, in certain investments in equity affiliates, such as joint ventures or other equity investments with strategic partners, including PersolKelly Asia Pacific. These arrangements expose us to a number of risks, including the risk that the management of the combined venture may not be able to fulfill their performance obligations under the management agreements or that the joint venture parties may be incapable of providing the required financial support. Additionally, improper, illegal or unethical actions by the venture management could have a negative impact on the reputation of the venture and our company.

A loss of major customers or a change in such customers' buying behavior could have a material adverse effect on our business.

Our business strategy includes serving large corporate customers through high volume global service agreements. While our strategy is intended to enable us to increase our revenues and earnings from our major corporate customers, the strategy also exposes us to increased risks arising from the possible loss of major customer accounts. The deterioration of the financial condition or business prospects of these customers could reduce their need for our services and result in a significant decrease in the revenues and earnings we derive from these customers. Continuing merger and acquisition activity involving our large corporate customers could put existing business at risk or impose additional pricing pressures. Since receipts from customers generally lag payroll to temporary employees, the bankruptcy of a major customer could have a material adverse impact on our ability to meet our working capital requirements. Additionally, most of our customer contracts can be terminated by the customer on short notice without penalty. This creates uncertainty with respect to the revenues and earnings we may recognize with respect to our customer contracts.

Our business with large customer accounts reflects a market-driven shift in buying behaviors in which reliance on a small number of staffing partners has shifted to reliance upon outsourced workforce solutions. The movement from single-sourced to competitively sourced staffing contracts may also substantially reduce our future revenues from such customers. While Kelly has sought to address this trend with the adoption of talent supply chain strategies, including providing CWO services within our GTS segment, we may not be selected or retained as the CWO service provider by our large customers. This may result in a material decrease in the revenue we derive from providing staffing services to such customers. In addition, revenues may be materially impacted from our decision to exit customers due to pricing pressure or other business factors.

Our business with the federal government and government contractors presents additional risk considerations. We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts. Failure to meet these obligations could result in civil penalties, fines, suspension of payments, reputational damage, disqualification from doing business with government agencies and other sanctions or adverse consequences. Government procurement practices may change in ways that impose additional costs or risks upon us or pose a competitive disadvantage. Our employees may be unable to obtain or retain the security clearances necessary to conduct business under certain contracts, or we could lose or be unable to secure or retain a necessary facility clearance. Government agencies may temporarily or permanently lose funding for awarded contracts, or there could be delays in the start-up of projects already awarded and funded.

We conduct a significant portion of our operations outside of the United States and we are subject to risks relating to our international business activities, including fluctuations in currency exchange rates and numerous legal and regulatory requirements.

We conduct our business in most major staffing markets throughout the world. Our operations outside the United States are subject to risks inherent in international business activities, including:

- fluctuations in currency exchange rates;
- restrictions or limitations on the transfer of funds;
- government intrusions including asset seizures, expropriations or de facto control;
- varying economic and political conditions;
- differences in cultures and business practices;
- differences in employment and tax laws and regulations;
- differences in accounting and reporting requirements;
- differences in labor and market conditions;
- compliance with trade sanctions;
- changing and, in some cases, complex or ambiguous laws and regulations; and
- litigation, investigations and claims.

Our operations outside the United States are reported in the applicable local currencies and then translated into U.S. dollars at the applicable currency exchange rates for inclusion in our consolidated financial statements. Exchange rates for currencies of these countries may fluctuate in relation to the U.S. dollar and these fluctuations may have an adverse or favorable effect on our operating results when translating foreign currencies into U.S. dollars.

Our investment in Persol Holdings exposes us to potential market and currency exchange risks.

We are exposed to market and currency risks on our investment in Persol Holdings. The investment is stated at fair value and is marked to market through net earnings. Changes in the market price are based on the Persol Holdings stock price as listed in the Tokyo stock exchange, and such changes may be material. Foreign currency fluctuations on this yen-denominated investment are reflected as a component of other comprehensive income and, accordingly, the exchange rate fluctuations may have a material adverse or favorable effect on our financial statements.

Our international operations subject us to potential liability under anti-corruption, trade protection, and other laws and regulations.

The Foreign Corrupt Practices Act and other anti-corruption laws and regulations (“Anti-Corruption Laws”) prohibit corrupt payments by our employees, vendors, or agents. While we devote substantial resources to our global compliance programs and have implemented policies, training, and internal controls designed to reduce the risk of corrupt payments, our employees, vendors, or agents may violate our policies. Our failure to comply with Anti-Corruption Laws could result in significant fines and penalties, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. Operations outside the U.S. may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment. As a result, we may be subject to legal liability and reputational damage.

We depend on our ability to attract, develop and retain qualified permanent full-time employees.

As we aim to expand the number of clients adopting talent supply chain management and other specialty solutions in order to support our growth strategy, we are highly reliant on individuals who possess specialized knowledge and skills to lead related specialty solutions and operations. There can be no assurance that qualified personnel will continue to be available. Our success is increasingly dependent on our ability to attract, develop and retain these experts.

We depend on our ability to attract and retain qualified temporary personnel (employed directly by us or through third-party suppliers).

We depend on our ability to attract qualified temporary personnel who possess the skills and experience necessary to meet the staffing requirements of our customers. We must continually evaluate our base of available qualified personnel to keep pace with changing customer needs. Competition for individuals with proven professional skills is intense, and demand for these individuals is expected to remain strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available in sufficient numbers and on terms of employment acceptable to us and our customers. Our success is substantially dependent on our ability to recruit and retain qualified temporary personnel.

We may be exposed to employment-related claims and losses, including class action lawsuits and collective actions, which could have a material adverse effect on our business.

We employ and assign personnel in the workplaces of other businesses. The risks of these activities include possible claims relating to:

- discrimination and harassment;
- wrongful termination or retaliation;
- violations of employment rights related to employment screening or privacy issues;
- apportionment between us and our customer of legal obligations as an employer of temporary employees;
- classification of workers as employees or independent contractors;
- employment of unauthorized workers;
- violations of wage and hour requirements;
- retroactive entitlement to employee benefits, including health insurance;
- failure to comply with leave policy requirements; and
- errors and omissions by our temporary employees, particularly for the actions of professionals such as attorneys, accountants, teachers and scientists.

We are also subject to potential risks relating to misuse of customer proprietary information, misappropriation of funds, death or injury to our employees, damage to customer facilities due to negligence of temporary employees, criminal activity and other similar occurrences. We may incur fines and other losses or negative publicity with respect to these risks. In addition, these occurrences may give rise to litigation, which could be time-consuming and expensive. In the U.S. and certain other countries in which we operate, new employment and labor laws and regulations have been proposed or adopted that may increase the potential exposure of employers to employment-related claims and litigation. In addition, such laws and regulations are arising with increasing frequency at the state and local level in the U.S. and the resulting inconsistency in such laws and regulations results in additional complexity. There can be no assurance that the corporate policies and practices we have in place to help reduce our exposure to these risks will be effective or that we will not experience losses as a result of these risks. Although we maintain insurance in types and amounts we believe are appropriate in light of the aforementioned exposures, there can also be no assurance that such insurance policies will remain available on reasonable terms or be sufficient in amount or scope of coverage. Additionally, should we have a material inability to produce records as a consequence of litigation or a government investigation, the cost or consequences of such matters could become much greater.

A failure to maintain the privacy of information entrusted to us could have significant adverse consequences.

In the normal course of business we control, we process or have access to personal information regarding our own employees or employment candidates, as well as that of many of our customers or managed suppliers. Information concerning our employees and candidates may also reside in systems controlled by third parties for purposes such as employee benefits and payroll administration. The legal and regulatory environment concerning data privacy is becoming more complex and challenging, and the potential consequences of non-compliance have become more severe. Any failure to protect such personal information from inappropriate access or disclosure, whether through social engineering or by accident or other cause, could have severe consequences including fines, litigation, regulatory sanctions including loss of our status as a subscriber to the EU-U.S. Privacy Shield Framework, reputational damage and loss of customers or employees. Although we have a program designed to preserve the privacy of the personal data that we control or process, as well as personal data that we entrust to third parties, there can be no assurance that our program will meet all current and future regulatory requirements, anticipate all potential methods of unauthorized access, or prevent all inappropriate disclosures. Our insurance coverage may not be sufficient to cover all such costs or consequences, and there can be no assurance that any insurance that we now maintain will remain available under acceptable terms.

Cyber attacks or other breaches of network or information technology security could have an adverse effect on our systems, services, reputation and financial results.

We rely upon multiple information technology systems and networks, some of which are web-based or managed by third parties, to process, transmit and store electronic information and to manage or support a variety of critical business processes and activities. Our networks and applications are increasingly accessed from locations and by devices not within our physical control, and the specifics of our technology systems and networks may vary by geographic region. In the course of ordinary business, we may store or process proprietary or confidential information concerning our business and financial performance and current, past or prospective employees, customers, vendors and managed suppliers. The secure and consistent operation of these systems, networks and processes is critical to our business operations. Moreover, our temporary employees may be exposed to, or have access to, similar information in the course of their customer assignments. We routinely experience cyber attacks, which may include the use of malware, computer viruses, social engineering schemes and other means of attempted disruption or unauthorized access.

The actions we take to reduce the risk of impairments to our operations or systems and breaches of confidential or proprietary data may not be sufficient to prevent or repel future cyber events or other impairments of our networks or information technologies. An event involving the destruction, modification, accidental or unauthorized release, or theft of sensitive information from systems related to our business, or an attack that results in damage to or unavailability of our key technology systems or those of critical vendors, could result in damage to our reputation, fines, regulatory sanctions or interventions, contractual or financial liabilities, additional compliance and remediation costs, loss of employees or customers, loss of payment card network privileges, operational disruptions and other forms of costs, losses or reimbursements, any of which could materially adversely affect our operations or financial condition. Our cyber security and business continuity plans may not be effective in anticipating, preventing and effectively responding to all potential cyber risk exposures. Our insurance coverage may not be sufficient to cover all such costs or consequences, and there can be no assurance that any insurance that we now maintain will remain available under acceptable terms.

Damage to our key data centers could affect our ability to sustain critical business applications.

Many business processes critical to our continued operation are hosted in outsourced facilities in America and Europe. Certain other processes are hosted at our corporate headquarters complex or occur in cloud-based computer environments. These critical processes include, but are not limited to, payroll, customer reporting and order management. Although we have taken steps to protect all such instances by establishing robust data backup and disaster recovery capabilities, the loss of these data centers or access to the cloud-based environments could create a substantial risk of business interruption which could have a material adverse effect on our business, financial condition and results of operations.

Our information technology projects may not yield their intended results.

We have a number of information technology projects in process or in the planning stages, including improvements to applicant onboarding and tracking systems, order management, and improvements to financial processes such as billing and accounts payable through system consolidation and upgrades. Although the technology is intended to increase productivity and operating efficiencies, these projects may not yield their intended results. Any delays in completing, or an inability to successfully complete, these technology initiatives or an inability to achieve the anticipated efficiencies could adversely affect our operations, liquidity and financial condition. In addition, our information technology investments and strategy may not provide the ability to keep up with evolving industry trends and customer expectations which could weaken our competitive position. We also do not currently utilize a single enterprise resource planning system, which limits our ability and increases the amount of investment and effort necessary to provide global service integration to our customers.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal controls over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could have a negative effect on our stock price.

Impairment charges relating to our goodwill, intangibles and long-lived assets, including equity method investments, could adversely affect our results of operations.

We regularly monitor our goodwill, long-lived assets and equity method investments for impairment indicators. In conducting our goodwill impairment testing, we compare the fair value of each of our reporting units with goodwill to the related net book value. In conducting our impairment analysis of long-lived assets and intangibles, we compare the undiscounted cash flows expected to be generated from the long-lived assets and intangibles to the related net book values. We review our equity method investment for indicators of impairment on a periodic basis or whenever events or circumstances indicate the carrying amount may be other-than-temporarily impaired. Changes in economic or operating conditions impacting our estimates and assumptions could result in the impairment of our goodwill, intangibles, long-lived assets and equity method investments. In the event that we determine that there is an impairment, we may be required to record a significant non-cash charge to earnings that could adversely affect our results of operations.

Unexpected changes in claim trends on our workers' compensation, unemployment, disability and medical benefit plans may negatively impact our financial condition.

We self-insure, or otherwise bear financial responsibility for, a significant portion of expected losses under our workers' compensation program, disability and medical benefits claims. Unexpected changes in claim trends, including the severity and frequency of claims, actuarial estimates and medical cost inflation, could result in costs that are significantly different than initially reported. If future claims-related liabilities increase due to unforeseen circumstances, or if we must make unfavorable adjustments to accruals for prior accident years, our costs could increase significantly. In addition, unemployment insurance costs are dependent on benefit claims experience from employees which may vary from current levels and result in increased costs. There can be no assurance that we will be able to increase the fees charged to our customers in a timely manner and in a sufficient amount to cover increased costs as a result of any changes in claims-related liabilities.

Our business is subject to extensive government regulation, which may restrict the types of employment services we are permitted to offer or result in additional or increased taxes, including payroll taxes or other costs that reduce our revenues and earnings.

The temporary employment industry is heavily regulated in many of the countries in which we operate. Changes in laws or government regulations may result in prohibition or restriction of certain types of employment services we are permitted to offer or the imposition of new or additional benefit, licensing or tax requirements that could reduce our revenues and earnings. In particular, we are subject to state unemployment taxes in the U.S., which typically increase during periods of increased levels of unemployment. We also receive benefits, such as the work opportunity income tax credit in the U.S., that regularly expire and may not be reinstated. There can be no assurance that we will be able to increase the fees charged to our customers in a timely manner and in a sufficient amount to fully cover increased costs as a result of any changes in laws or government regulations. Any future changes in laws or government regulations, or interpretations thereof, including additional laws and regulations enacted at a local level may make it more difficult or expensive for us to provide staffing services and could have a material adverse effect on our business, financial condition and results of operations.

Government litigation and regulatory activity relating to competition rules may limit how we structure and market our services.

As a leading staffing and recruiting company, we are closely scrutinized by government agencies under U.S. and foreign competition laws. An increasing number of governments are regulating competition law activities, leading to increased scrutiny. Some jurisdictions also allow competitors or consumers to assert claims of anti-competitive conduct.

The European Commission and its various competition authorities have targeted industry trade associations in which we participate. Any government regulatory actions may hamper our ability to provide the cost-effective benefits to consumers and businesses, reducing the attractiveness of our services and the revenue that come from them. New competition law actions could be initiated. The outcome of such actions, or steps taken to avoid them, could adversely affect us in a variety of ways, including:

- We may have to choose between withdrawing certain services from certain geographies to avoid fines or designing and developing alternative versions of those services to comply with government rulings, which may entail a delay in a service delivery.
- Adverse rulings may act as precedent in other competition law proceedings.

We may have additional tax or unclaimed property liabilities that exceed our estimates.

We are subject to a multitude of federal, state and local taxes in the jurisdictions we operate in, including the tax provisions of the U.S. Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. We are also subject to unclaimed or abandoned property (escheat) laws. Our tax expense could be materially impacted by changes in tax laws in these jurisdictions, changes in the valuation of deferred tax assets and liabilities or changes in the mix of income by country. The demographics of our workforce and the visibility of our industry may make it more likely we become a target of government investigations, and we are regularly subject to audit by tax authorities. Although we believe our tax and unclaimed property estimates are reasonable, the final determination of audits and any related litigation could be materially different from our historical tax provisions and accruals. The results of an audit or litigation could materially harm our business.

We may not be able to realize value from, or otherwise preserve and utilize, our tax credit and net operating loss carryforwards.

Provisions in U.S. and foreign tax law could limit the use of tax credit and net operating loss carryforwards in the event of an ownership change. In general, an ownership change occurs under U.S. tax law if there is a change in the corporation's equity ownership that exceeds 50% over a rolling three-year period. If we experience an ownership change, inclusive of our Class A and Class B common stock, our tax credit and net operating loss carryforwards generated prior to the ownership change may be subject to annual limitations that could reduce, eliminate or defer the utilization. Such limitation could materially impact our financial condition and results of operations.

Failure to maintain specified financial covenants in our bank credit facilities, or credit market events beyond our control, could adversely restrict our financial and operating flexibility and subject us to other risks, including risk of loss of access to capital markets.

Our bank credit facilities contain covenants that require us to maintain specified financial ratios and satisfy other financial conditions. During 2018, we met all of the covenant requirements. Our ability to continue to meet these financial covenants, particularly with respect to interest coverage (see Debt footnote in the notes to our consolidated financial statements), may not be assured. If we default under this or any other of these requirements, the lenders could declare all outstanding borrowings, accrued interest and fees to be due and payable or significantly increase the cost of the facility. In these circumstances, there can be no assurance that we would have sufficient liquidity to repay or refinance this indebtedness at favorable rates or at all. Events beyond our control could result in the failure of one or more of our banks, reducing our access to liquidity and potentially resulting in reduced financial and operating flexibility. If broader credit markets were to experience dislocation, our potential access to other funding sources would be limited.

Our controlling stockholder exercises voting control over our company and has the ability to elect or remove from office all of our directors.

Terence E. Adderley, the controlling stockholder and former Chairman of the Company, died on October 9, 2018. Upon Mr. Adderley's death, the Terence E. Adderley Revocable Trust K ("Trust K") became irrevocable. In accordance with the provisions of Trust K, William U. Parfet, David M. Hempstead and Andrew H. Curoe were appointed as successor trustees of the trust. Mr. Parfet is the brother of Donald R. Parfet, the Chairman of the board of directors of the Company. The trustees, acting by majority vote, have sole investment and voting power over the shares of Class B common stock held by Trust K, which represent approximately 91.5% of the outstanding Class B shares.

Our class B common stock is the only class of our common stock entitled to voting rights. The trustees of Trust K are therefore able to exercise voting control with respect to all matters requiring stockholder approval, including the election or removal from office of all members of the Company's board of directors.

We are not subject to certain of the listing standards that normally apply to companies whose shares are quoted on the NASDAQ Global Market.

Our Class A and Class B common stock are quoted on the NASDAQ Global Market. Under the listing standards of the NASDAQ Global Market, we are deemed to be a "controlled company" by virtue of the fact that Trust K has voting power with respect to more than fifty percent of our outstanding voting stock. A controlled company is not required to have a majority of its board of directors comprised of independent directors. Director nominees are not required to be selected or recommended for the board's selection by a majority of independent directors or a nominations committee comprised solely of independent directors, nor do the NASDAQ Global Market listing standards require a controlled company to certify the adoption of a formal written charter or board resolution, as applicable, addressing the nominations process. A controlled company is also exempt from NASDAQ Global Market's requirements regarding the determination of officer compensation by a majority of independent directors or a compensation committee comprised solely of independent directors. A controlled company is required to have an audit committee composed of at least three directors who are independent as defined under the rules of both the Securities and Exchange Commission and the NASDAQ Global Market. The NASDAQ Global Market further requires that all members of the audit committee have the ability to read and understand fundamental financial statements and that at least one member of the audit committee possess financial sophistication. The independent directors must also meet at least twice a year in meetings at which only they are present.

We currently comply with certain of the listing standards of the NASDAQ Global Market that do not apply to controlled companies. Our compliance is voluntary, however, and there can be no assurance that we will continue to comply with these standards in the future.

Provisions in our certificate of incorporation and bylaws and Delaware law may delay or prevent an acquisition of our company.

Our restated certificate of incorporation and bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors. For example, if a potential acquirer were to make a hostile bid for us, the acquirer would not be able to call a special meeting of stockholders to remove our board of directors or act by written consent without a meeting. The acquirer would also be required to provide advance notice of its proposal to replace directors at any annual meeting, and would not be able to cumulate votes at a meeting, which would require the acquirer to hold more shares to gain representation on the board of directors than if cumulative voting were permitted.

Our board of directors also has the ability to issue additional shares of common stock which could significantly dilute the ownership of a hostile acquirer. In addition, Section 203 of the Delaware General Corporation Law limits mergers and other business combination transactions involving 15 percent or greater stockholders of Delaware corporations unless certain board or stockholder approval requirements are satisfied. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation.

Our board of directors could choose not to negotiate with an acquirer that it did not believe was in our strategic interests. If an acquirer is discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by these or other measures, our shareholders could lose the opportunity to sell their shares at a favorable price.

The holders of shares of our Class A common stock are not entitled to voting rights.

Under our certificate of incorporation, the holders of shares of our Class A common stock are not entitled to voting rights, except as otherwise required by Delaware law. As a result, Class A common stock holders do not have the right to vote for the election of directors or in connection with most other matters submitted for the vote of our stockholders.

Our stock price may be subject to significant volatility and could suffer a decline in value.

The market price of our common stock may be subject to significant volatility. We believe that many factors, including several which are beyond our control, have a significant effect on the market price of our common stock. These include:

- actual or anticipated variations in our quarterly operating results;
- announcements of new services by us or our competitors;
- announcements relating to strategic relationships or acquisitions;
- changes in financial estimates by securities analysts;
- changes in general economic conditions;
- actual or anticipated changes in laws and government regulations;
- commencement of, or involvement in, litigation;
- any major change in our board or management;
- changes in industry trends or conditions; and
- sales of significant amounts of our common stock or other securities in the market.

In addition, the stock market in general, and the NASDAQ Global Market in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of listed companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of our management's attention and resources. Further, our operating results may be below the expectations of securities analysts or investors. In such event, the price of our common stock may decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own our headquarters in Troy, Michigan, where corporate, subsidiary and divisional offices are currently located. The original headquarters building was purchased in 1977. Headquarters operations were expanded into additional buildings purchased in 1991, 1997 and 2001.

The combined usable floor space in the headquarters complex is approximately 345,000 square feet. Our buildings are in good condition and are currently adequate for their intended purpose and use. We also own undeveloped land in Troy and northern Oakland County, Michigan.

Branch office business is conducted in leased premises with the majority of leases being fixed for terms of generally three to five years in the U.S. and Canada and five to ten years outside the U.S. and Canada. We own virtually all of the office furniture and the equipment used in our corporate headquarters and branch offices.

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of business, the Company is continuously engaged in litigation, threatened litigation, or investigations arising in the ordinary course of its business, such as matters alleging employment discrimination, wage and hour violations, claims for indemnification or liability or violations of privacy rights or anti-competition regulations, which could result in a material adverse outcome. There are matters that were stayed pending a decision from the United States Supreme Court in the matter of *Epic Systems Corp. v. Lewis*, regarding the enforceability of class action waivers in favor of arbitration. On May 21, 2018, the Court determined that class action waivers in employment contracts are enforceable. As a result of the ruling, most lower courts have been enforcing our arbitration agreements and class action waivers, and staying class action matters pending the results of the individual arbitration proceedings.

We record accruals for loss contingencies when we believe it is probable that liability has been incurred and the amount of loss can be reasonably estimated. Such accruals are recorded in accounts payable and accrued liabilities and in accrued workers' compensation and other claims in the consolidated balance sheet.

The Company maintains insurance coverage which may cover certain claims. When claims exceed the applicable loss limit and realization of recovery of the claim from existing insurance policies is deemed probable, the Company records receivables from the insurance company for the excess amount, which are included in prepaid expenses and other current assets in the consolidated balance sheet.

While the ultimate outcome of these matters cannot be predicted with certainty, we believe that the resolution of any such proceedings will not have a material adverse effect on our financial condition, results of operations or cash flows.

In January 2018, the Hungarian Competition Authority initiated proceedings against the Company, along with a local industry trade association and its members due to alleged infringement of national competition regulations. We are fully cooperating with the investigation, and are supplying materials and information to comply with the Authority's undertakings. The Company does not believe that resolution of this matter will have a material adverse effect upon the Company's competitive position, results of operations, cash flows or financial position.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information and Dividends

Our Class A and Class B common stock is traded on the NASDAQ Global Market under the symbols “KELYA” and “KELYB,” respectively. The high and low selling prices for our Class A common stock and Class B common stock as quoted by the NASDAQ Global Market and the dividends paid on the common stock for each quarterly period in the last two fiscal years are reported in the table below. Our ability to pay dividends is subject to compliance with certain financial covenants contained in our debt facilities, as described in the Debt footnote in the notes to our consolidated financial statements.

	Per share amounts (in dollars)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2018					
Class A common					
High	\$ 30.99	\$ 32.31	\$ 26.57	\$ 25.00	\$ 32.31
Low	26.65	21.44	22.23	19.21	19.21
Class B common					
High	29.07	34.30	34.30	23.40	34.30
Low	27.00	22.00	21.50	22.01	21.50
Dividends	0.075	0.075	0.075	0.075	0.30
2017					
Class A common					
High	\$ 23.48	\$ 24.70	\$ 25.48	\$ 30.93	\$ 30.93
Low	20.87	20.27	21.01	24.69	20.27
Class B common					
High	23.00	23.75	23.00	28.50	28.50
Low	20.30	20.18	20.95	27.20	20.18
Dividends	0.075	0.075	0.075	0.075	0.30

Holders

The number of holders of record of our Class A and Class B common stock were approximately 9,000 and 300, respectively, as of February 1, 2019.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During the fourth quarter of 2018, we reacquired shares of our Class A common stock as follows:

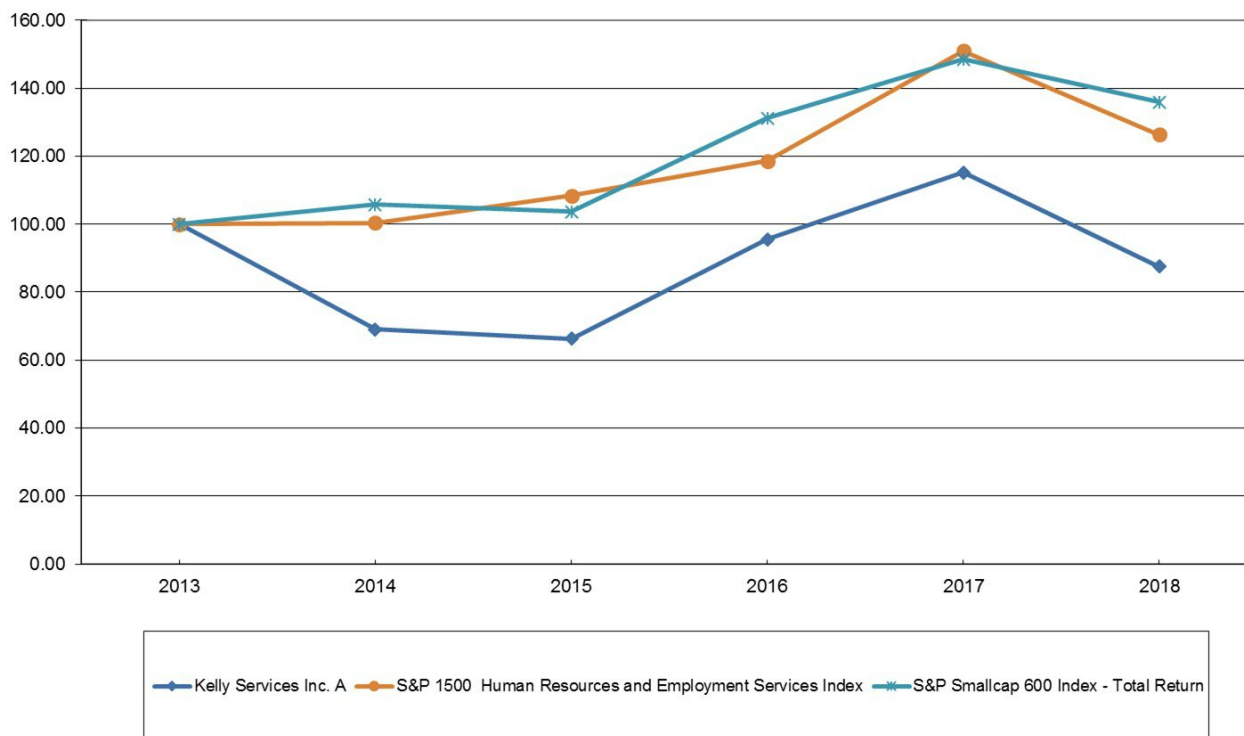
Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
				(in millions of dollars)
October 1, 2018 through November 4, 2018	24,757	\$ 23.26	—	\$ —
November 5, 2018 through December 2, 2018	174	22.91	—	—
December 3, 2018 through December 30, 2018	—	—	—	—
Total	24,931	\$ 23.25	—	

We may reacquire shares sold to cover employee tax withholdings due upon the vesting of restricted stock held by employees. Accordingly, 24,931 shares were reacquired during the Company's fourth quarter.

Performance Graph

The following graph compares the cumulative total return of our Class A common stock with that of the S&P SmallCap 600 Index and the S&P 1500 Human Resources and Employment Services Index for the five years ended December 31, 2018. The graph assumes an investment of \$100 on December 31, 2013 and that all dividends were reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN Assumes Initial Investment of \$100 December 31, 2013 – December 31, 2018



	2013	2014	2015	2016	2017	2018
Kelly Services, Inc.	\$ 100.00	\$ 69.01	\$ 66.28	\$ 95.51	\$ 115.16	\$ 87.53
S&P SmallCap 600 Index	\$ 100.00	\$ 105.76	\$ 103.67	\$ 131.20	\$ 148.56	\$ 135.96
S&P 1500 Human Resources and Employment Services Index	\$ 100.00	\$ 100.36	\$ 108.35	\$ 118.58	\$ 150.93	\$ 126.37

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes selected financial information of Kelly Services, Inc. and its subsidiaries for each of the most recent five fiscal years. This table should be read in conjunction with the other financial information, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements included elsewhere in this report. The statement of earnings data for the 2015 and 2014 fiscal years as well as the balance sheet data as of 2016, 2015 and 2014 are derived from consolidated financial statements previously on file with the SEC.

(In millions except per share amounts)	2018	2017	2016	2015 ⁽¹⁾	2014
Revenue from services	\$ 5,513.9	\$ 5,374.4	\$ 5,276.8	\$ 5,518.2	\$ 5,562.7
Earnings from operations	87.4	83.3	63.2	66.7	21.9
Loss on investment in Persol Holdings ⁽²⁾	(96.2)	—	—	—	—
Gain on investment in PersolKelly Asia Pacific ⁽³⁾	—	—	87.2	—	—
Net earnings	22.9	71.6	120.8	53.8	23.7
Basic earnings per share	0.59	1.84	3.10	1.39	0.61
Diluted earnings per share	0.58	1.81	3.08	1.39	0.61
Dividends per share					
Classes A and B common	0.30	0.30	0.275	0.20	0.20
Working capital ⁽⁴⁾	503.0	458.1	443.5	411.3	428.1
Total assets	2,314.4	2,378.2	2,028.1	1,939.6	1,917.9
Total noncurrent liabilities	257.4	300.5	245.0	228.4	224.1

- (1) Fiscal year included 53 weeks.
- (2) Represents the change in fair value of the investment in the common stock of Persol Holdings.
- (3) Represents the fair value of the Company’s investment in PersolKelly Asia Pacific in addition to the cash received less the carrying value of assets transferred to the joint venture.
- (4) Working capital is calculated as current assets minus current liabilities.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Executive Overview

The Talent Solutions Industry

The labor markets are in the midst of change due to automation, secular shifts in labor supply and demand and skills gaps. Global demographic trends are reshaping and redefining the way in which companies find and use talent. In response, the talent solutions industry is adjusting how it sources, recruits, trains and places talent.

Our industry is evolving to meet businesses’ growing demand for talent, whether delivered as a single individual or as part of a total workforce solution. Companies in our industry are using novel sourcing approaches—including gig platforms, independent contractors and other talent pools—to create workforce solutions that are flexible, responsive to the labor market, and tailored to meet clients’ needs. Increasingly, clients are looking for talent advisors and partners to help them with program design, employer branding and differentiated sourcing strategies.

In addition, today’s companies are elevating their commitment to talent, with the growing realization that meeting the changing needs and requirements of talent is essential to remain competitive. The ways in which people view, find, and conduct work are undergoing fundamental shifts. And as the demand for skilled talent continues to climb, workers’ changing ideas about the integration of work into life are becoming more important. In this increasingly talent-driven market, a diverse set of workers, empowered by technology, is seeking to take greater control over their career trajectories.

Our Business

Kelly Services is a recruiting, talent and global workforce solutions company serving customers of all sizes in a variety of industries. We offer innovative outsourcing and consulting services, as well as staffing on a temporary, temporary-to-hire and direct-hire basis. We provide commercial and professional/technical staffing through our branch networks in our Americas and International segments and, in APAC, we provide staffing solutions to customers through PersolKelly Asia Pacific, our joint venture with Persol Holdings, a leading provider of HR solutions in Japan. For the U.S. education market, Kelly Educational Staffing (“KES”) is the leading provider of substitute teachers to more than 7,000 schools nationwide.

We also provide a suite of talent fulfillment and outcome-based solutions through our Global Talent Solutions (“GTS”) segment, which delivers integrated talent management solutions on a global basis. GTS provides CWO, RPO, BPO, Advisory and Talent Fulfillment solutions to help customers plan for, manage and execute their acquisition of contingent labor, full-time labor and free agents, and gain access to service providers and qualified talent quickly, at competitive rates, with minimized risk.

We earn revenues from customers that procure the services of our temporary employees on a time and materials basis, that use us to recruit permanent employees, and that rely on our talent advisory and outsourcing services. 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 asset. Average days sales outstanding varies within and outside the U.S. but is 55 days on a global basis as of the 2018 and 2017 year end. Since receipts from customers generally lag temporary employee payroll, working capital requirements increase substantially in periods of growth.

Our Strategic Intent and Outlook

Kelly is committed to being a leading talent solutions provider in the markets in which we choose to compete, which is the foundation of our strategy in 2019 and beyond. This strategic intent is underpinned by our Noble Purpose, “We connect people to work in ways that enrich their lives,” and by our strategic pillars:

- Leadership position via scale or specialty
- Embracing the future of work
- Being the destination for top talent
- Investing in innovation and efficiency

By aligning ourselves with our Noble Purpose and executing against these strategic pillars, we expect to achieve new levels of growth and efficiency as we develop further specializations across our product portfolio.

2018 was a year of strategic and operational progress that demonstrated our commitment to profitable growth:

- Earnings from operations for the full year 2018 totaled \$87.4 million compared to \$83.3 million in 2017
- Conversion rate, or return on gross profit, continues to be a key metric to measure our drive for profitable growth. Our 2018 conversion rate was 9.0% compared to 8.7% in 2017

We delivered solid full-year performance in a tight labor market, effectively managing costs while also investing in our future. A growing U.S. economy and historic low unemployment rates made recruiting more challenging this year and we experienced increased time and expense to fill positions. Nevertheless, we made steady progress against our strategic intent, creating opportunities to improve margins through organic growth, while seeking new paths to growth through inorganic investments.

We also initiated a comprehensive review of our commercial staffing operations, particularly the U.S. branch network, which will enable us to place additional focus on improving operational efficiency and creating growth through specialization.

In 2018 we also became a more focused company. We sold our healthcare and legal specialty operations, which allows us to place a greater focus on our commercial, education, engineering and science specialties. In education, we successfully integrated our 2017 acquisition of Teachers On Call (“TOC”). In engineering, we identified two companies that will immediately expand our engineering portfolio: on January 2, 2019, we acquired Global Technology Associates and NextGen Global Resources, leaders in the growing 5G telecoms market. These position Kelly as one of the leading engineering workforce solutions companies in this fast-growing technology space. Both companies provide services to the largest carriers and OEMs in the telecommunication industry.

Other investments this year included our ongoing commitment to embracing the future of work, as the Kelly Innovation Fund participated in the seed fundraising round for Kenzie Academy, a U.S. tech apprenticeship program that develops modern tech workers. To strengthen our position in the portion of the workforce that participate as independent contractors, we made a minority equity investment in Business Talent Group (“BTG”), a U.S.-based marketplace that connects highly skilled independent talent to some of the world’s largest businesses.

We also continued to make investments in technology during 2018, particularly that which supports greater efficiency in finding talent to answer customer needs. We are making substantial investments in our front and middle office platforms, which, when deployed, will streamline the processes and workflows associated with recruiting, onboarding and reassigning workers. These investments will create the platform from which we can deploy operational improvements that will enhance the experience of the hundreds of thousands of job seekers who interact and work with Kelly each year.

Kelly continues to focus on accelerating the execution of our strategic plan and making the necessary investments and adjustments to advance that strategy. Our objective is to become an even more competitive, consultative and profitable company, and we are reshaping our business to make that goal a reality. We will measure our progress against both revenue and gross profit growth, as well as earnings and conversion rate. We expect:

- To grow higher-margin specialty and outsourced solutions, creating a more balanced portfolio that yields benefits from improved mix;
- To integrate our investments in specialty solutions with significant growth opportunities, such as our acquisitions of Global Technology Associates and NextGen Global Resources;
- To deliver structural improvements in costs through investments in technology and process automation; and
- Our conversion rate to continue to improve.

Financial Measures

The constant currency (“CC”) change amounts in the following tables refer to the year-over-year percentage changes resulting from translating 2018 financial data into U.S. dollars using the same foreign currency exchange rates used to translate financial data for 2017. We believe that CC measurements are a useful measure, indicating the actual trends of our operations without distortion due to currency fluctuations. We use CC results when analyzing the performance of our segments and measuring our results against those of our competitors. Additionally, substantially all of our foreign subsidiaries derive revenues and incur cost of services and selling, general and administrative expenses (“SG&A”) within a single country and currency which, as a result, provides a natural hedge against currency risks in connection with their normal business operations.

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

Reported and CC percentage changes in the following tables were computed based on actual amounts in thousands of dollars.

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

Days sales outstanding (“DSO”) represents the number of days that sales remain unpaid for the period being reported. DSO is calculated by dividing average net sales per day (based on a rolling three-month period) into trade accounts receivable, net of allowances at the period end. Although secondary supplier revenues are recorded on a net basis (net of secondary supplier expense), secondary supplier revenue is included in the daily sales calculation in order to properly reflect the gross revenue amounts billed to the customer.

Results of Operations
2018 versus 2017

Total Company
(Dollars in millions except per share data)

	2018	2017	Change	CC Change
Revenue from services	\$ 5,513.9	\$ 5,374.4	2.6%	2.2%
Gross profit	972.2	954.1	1.9	1.6
SG&A expenses excluding restructuring charges	884.8	868.4	1.9	1.6
Restructuring charges	—	2.4	(100.0)	(100.0)
Total SG&A expenses	884.8	870.8	1.6	1.4
Earnings from operations	87.4	83.3	5.0	
Earnings from operations excluding restructuring charges	87.4	85.7	2.1	
Diluted earnings per share	\$ 0.58	\$ 1.81	(68.0)	
Staffing fee-based income (included in revenue from services)	68.6	57.3	19.6	19.0
Gross profit rate	17.6%	17.8%	(0.2) pts.	
Conversion rate	9.0	8.7	0.3	
Conversion rate excluding restructuring charges	9.0	9.0	—	
Return on sales	1.6	1.5	0.1	
Return on sales excluding restructuring charges	1.6	1.6	—	

Total Company revenue from services for 2018 was up 2.6% in comparison to the prior year on a reported basis, and up 2.2% on a CC basis, reflecting the weakening of the U.S. dollar against several currencies, primarily the Euro in the first half of 2018. As more fully described in the following discussions, revenue increased in Americas Staffing and International Staffing, while GTS revenue was relatively flat.

The gross profit rate decreased 20 basis points year over year. As more fully described in the following discussions, a decline in the gross profit rate in International Staffing was partially offset by an increase in the GTS gross profit rate. The Americas Staffing gross profit rate was unchanged.

Total SG&A expenses increased 1.6% on a reported basis (1.4% on a CC basis), due primarily to increases in Americas Staffing SG&A expenses, as described in the following discussion. Included in total SG&A expenses for 2017 are restructuring charges of \$2.4 million, relating primarily to an initiative to optimize our GTS service delivery models.

Diluted earnings per share for 2018 were \$0.58, as compared to \$1.81 for 2017. Included in diluted earnings per share for 2018 is approximately \$1.69 per share related to the loss on investment in Persol Holdings, net of tax. Included in diluted earnings per share for 2017 is approximately \$0.35 per share related to the impact of revaluing net deferred tax assets as a result of the U.S. Tax Cuts and Jobs Act and approximately \$0.04 per share related to restructuring charges.

Americas Staffing
(Dollars in millions)

	2018	2017	Change	CC Change
Revenue from services	\$ 2,417.7	\$ 2,345.9	3.1%	3.4%
Gross profit	441.3	429.1	2.9	3.1
SG&A expenses excluding restructuring charges	364.2	346.0	5.2	5.5
Restructuring charges	—	0.4	(100.0)	(100.0)
Total SG&A expenses	364.2	346.4	5.1	5.4
Earnings from operations	77.1	82.7	(6.7)	
Earnings from operations excluding restructuring charges	77.1	83.1	(7.1)	
Gross profit rate	18.3%	18.3%	— pts.	
Conversion rate	17.5	19.3	(1.8)	
Conversion rate excluding restructuring charges	17.5	19.3	(1.8)	
Return on sales	3.2	3.5	(0.3)	
Return on sales excluding restructuring charges	3.2	3.5	(0.3)	

The change in Americas Staffing revenue from services reflects the impact of a 2% increase in average bill rates (a 3% increase on a CC basis), combined with the impact of the September 2017 acquisition of TOC, and partially offset by a 1% decrease in hours volume. The increase in average bill rates was the result of wage increases and stronger revenue growth in our service lines with higher pay rates. Americas Staffing represented 44% of total Company revenue in both 2018 and 2017.

From a product perspective, the increase in revenue reflects an increase in commercial, including light industrial and educational staffing (due primarily to the TOC acquisition) and professional/technical, including engineering, science and IT products. These increases were partially offset by a decrease in our commercial office services volume.

The Americas Staffing gross profit rate was unchanged from the prior year. Increases related to higher staffing fee-based income and lower payroll taxes were offset by unfavorable customer mix.

The increase in total SG&A expenses was due primarily to higher costs for recruiting and sales resources and additional effort to attract and place candidates in the current talent environment, combined with SG&A expenses related to TOC.

GTS
(Dollars in millions)

	2018	2017	Change	CC Change
Revenue from services	\$ 1,997.4	\$ 1,998.9	(0.1)%	(0.1)%
Gross profit	381.1	373.7	2.0	1.8
SG&A expenses excluding restructuring charges	296.5	294.7	0.6	0.4
Restructuring charges	—	2.0	(100.0)	(100.0)
Total SG&A expenses	296.5	296.7	—	(0.2)
Earnings from operations	84.6	77.0	9.8	
Earnings from operations excluding restructuring charges	84.6	79.0	7.1	
Gross profit rate	19.1%	18.7%	0.4 pts.	
Conversion rate	22.2	20.6	1.6	
Conversion rate excluding restructuring charges	22.2	21.1	1.1	
Return on sales	4.2	3.9	0.3	
Return on sales excluding restructuring charges	4.2	4.0	0.2	

Revenue from services was flat in comparison to last year. Lower demand in specific customers in centrally delivered staffing and PPO was offset by increased revenue in BPO, KellyConnect and CWO from program expansions and new customer wins in each product. GTS revenue represented 36% of total Company revenue in 2018 and 37% in 2017.

The increase in the GTS gross profit rate was due to improving product mix, partially offset by increases in employee-related healthcare costs.

Total SG&A expenses were flat in comparison to the prior year. Increased headcount and costs related to new programs and expansion of programs in the CWO, BPO and KellyConnect practices were partially offset by lower salary costs in centrally delivered staffing and PPO. Additionally, the year-over-year change in total SG&A expenses was impacted by restructuring charges of \$2.0 million in 2017, representing severance relating to an initiative to optimize our GTS service delivery models.

International Staffing

(Dollars in millions)

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>CC Change</u>
Revenue from services	\$ 1,116.6	\$ 1,048.2	6.5%	4.0%
Gross profit	152.3	153.7	(0.9)	(3.2)
Total SG&A expenses	132.3	131.6	0.5	(1.4)
Earnings from operations	20.0	22.1	(9.5)	
Gross profit rate	13.6%	14.7%	(1.1) pts.	
Conversion rate	13.2	14.4	(1.2)	
Return on sales	1.8	2.1	(0.3)	

The change in International Staffing revenue from services reflects primarily a 6% increase in average bill rates (a 3% increase on a CC basis), due to customer and country mix. Hours volume was flat in comparison to the prior year. International Staffing represented 20% of total Company revenue in both 2018 and 2017.

The International Staffing gross profit rate decreased primarily due to unfavorable customer mix and the effect of French payroll tax adjustments. These decreases were partially offset by an increase in staffing fee-based income.

The increase in total SG&A expenses was due to the effect of currency exchange rates. On a constant currency basis, SG&A expenses decreased due to effective cost control in expenses across the region.

Results of Operations
2017 versus 2016

Total Company
(Dollars in millions except per share data)

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>CC Change</u>
Revenue from services	\$ 5,374.4	\$ 5,276.8	1.9%	1.3%
Gross profit	954.1	906.3	5.3	4.7
SG&A expenses excluding restructuring charges	868.4	839.7	3.4	3.0
Restructuring charges	2.4	3.4	(31.6)	(31.2)
Total SG&A expenses	870.8	843.1	3.3	2.9
Earnings from operations	83.3	63.2	31.7	
Earnings from operations excluding restructuring charges	85.7	66.6	28.5	
Diluted earnings per share	\$ 1.81	\$ 3.08	(41.2)	
Staffing fee-based income (included in revenue from services)	57.3	58.5	(2.2)	(3.7)
Gross profit rate	17.8%	17.2%	0.6 pts.	
Conversion rate	8.7	7.0	1.7	
Conversion rate excluding restructuring charges	9.0	7.4	1.6	
Return on sales	1.5	1.2	0.3	
Return on sales excluding restructuring charges	1.6	1.3	0.3	

Total Company revenue from services for 2017 was up 1.9% in comparison to 2016 on a reported basis, and up 1.3% on a CC basis. As more fully described in the following discussions, revenue increases in the Americas Staffing and GTS segments were partially offset by a decline in the International Staffing segment. During 2016, we transferred our APAC staffing businesses for a 49% interest in the PersolKelly Asia Pacific joint venture, which is accounted for as an equity method investment, resulting in the decrease in International Staffing segment revenue.

The gross profit rate increased 60 basis points year over year. As more fully described in the following discussions, increases in the GTS and Americas Staffing gross profit rates were partially offset by a decline in the gross profit rate in International Staffing.

Total SG&A expenses increased 3.3% on a reported basis and 2.9% on a CC basis. Year-over-year increases in SG&A expenses in Americas Staffing and GTS reflect higher incentive-based compensation in those segments, and were partially offset by a decrease in International Staffing SG&A expenses, as a result of the APAC transaction. Included in total SG&A expenses for 2017 are restructuring charges of \$2.4 million, relating primarily to an initiative to optimize our GTS service delivery models. Included in total SG&A expenses for 2016 are restructuring charges of \$3.4 million, which relate to actions taken in the Americas Staffing and International Staffing segments to increase operational efficiency and prepare the businesses for future growth.

Diluted earnings per share for 2017 were \$1.81, as compared to \$3.08 for 2016. Included in diluted earnings per share for 2017 is approximately \$0.35 per share related to the unfavorable impact of revaluing net deferred tax assets as a result of the U.S. Tax Cuts and Jobs Act and approximately \$0.04 per share related to restructuring charges. Included in diluted earnings per share for 2016 is the impact of approximately \$1.62 per share for the gain on the investment in PersolKelly Asia Pacific, net of taxes and the impact of approximately \$0.06 per share for restructuring charges.

Americas Staffing
(Dollars in millions)

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>CC Change</u>
Revenue from services	\$ 2,345.9	\$ 2,191.6	7.0%	6.8%
Gross profit	429.1	398.2	7.8	7.6
SG&A expenses excluding restructuring charges	346.0	327.6	5.7	5.5
Restructuring charges	0.4	1.8	(80.0)	(79.8)
Total SG&A expenses	346.4	329.4	5.2	5.0
Earnings from operations	82.7	68.8	20.0	
Earnings from operations excluding restructuring charges	83.1	70.6	17.5	
Gross profit rate	18.3%	18.2%	0.1 pts.	
Conversion rate	19.3	17.3	2.0	
Conversion rate excluding restructuring charges	19.3	17.7	1.6	
Return on sales	3.5	3.1	0.4	
Return on sales excluding restructuring charges	3.5	3.2	0.3	

The change in Americas Staffing revenue from services reflects a 7% increase in average bill rates, while hours volume was flat year over year. The increase in average bill rates was the result of wage increases and stronger revenue growth in our service lines with higher pay rates. Hours volume increases in the U.S. and Canada were offset by decreases in Mexico, Brazil and Puerto Rico. Americas Staffing represented 44% of total Company revenue in 2017 and 42% in 2016.

Revenue increased in educational staffing, which includes the impact of the September 2017 acquisition of TOC, light industrial, engineering, IT and science products.

The increase in the Americas Staffing gross profit rate was due to lower taxes and lower workers' compensation expense, partially offset by unfavorable customer mix. We regularly update our estimates of open workers' compensation claims. As a result, we reduced our estimated costs of prior year workers' compensation claims in Americas Staffing by \$2.4 million for 2017. This compares to an adjustment reducing prior year workers' compensation claims by \$0.5 million for 2016.

Total SG&A expenses increased 5.2% year over year, due to higher performance-based compensation costs and additional sales and recruiting resources to capture growing demand in the last half of the year. Included in total SG&A expenses for 2016 are restructuring charges of \$1.8 million, which represent severance costs related to headcount reductions as well as lease buyout costs due to branch consolidations.

GTS
(Dollars in millions)

	2017	2016	Change	CC Change
Revenue from services	\$ 1,998.9	\$ 1,977.1	1.1%	1.0%
Gross profit	373.7	345.9	8.1	7.9
SG&A expenses excluding restructuring charges	294.7	287.3	2.6	2.5
Restructuring charges	2.0	0.4	415.5	417.6
Total SG&A expenses	296.7	287.7	3.1	3.0
Earnings from operations	77.0	58.2	32.4	
Earnings from operations excluding restructuring charges	79.0	58.6	35.0	
Gross profit rate	18.7%	17.5%	1.2 pts.	
Conversion rate	20.6	16.8	3.8	
Conversion rate excluding restructuring charges	21.1	16.9	4.2	
Return on sales	3.9	2.9	1.0	
Return on sales excluding restructuring charges	4.0	3.0	1.0	

Revenue from services increased 1.1% in comparison to 2016. Revenue increases in KellyConnect, BPO and CWO practices were partially offset by declines in our centrally delivered staffing and PPO practice. GTS revenue represented 37% of total Company revenue in 2017 and 38% in 2016.

The increase in the GTS gross profit rate was due to favorable product and customer mix, lower taxes and benefit costs, along with a decrease in workers' compensation costs.

Total SG&A expenses increased 3.1% from 2016. Included in total SG&A expenses for 2017 are restructuring charges of \$2.0 million, representing severance relating to an initiative to optimize our service delivery models in this segment. The remaining cost increase is due to headcount and salary costs related to additional and expanding programs, coupled with additional performance-based incentive costs. These increases were partially offset by lower bad debt expense compared to higher write-offs for certain accounts in 2016.

International Staffing

(Dollars in millions)

	2017	2016	Change	CC Change
Revenue from services	\$ 1,048.2	\$ 1,127.1	(7.0)%	(9.0)%
Gross profit	153.7	166.4	(7.7)	(9.8)
SG&A expenses excluding restructuring charges	131.6	145.7	(9.8)	(11.6)
Restructuring charges	—	1.2	(100.0)	(100.0)
Total SG&A expenses	131.6	146.9	(10.4)	(12.2)
Earnings from operations	22.1	19.5	13.3	
Earnings from operations excluding restructuring charges	22.1	20.7	7.2	
Gross profit rate	14.7%	14.8%	(0.1) pts.	
Conversion rate	14.4	11.7	2.7	
Conversion rate excluding restructuring charges	14.4	12.4	2.0	
Return on sales	2.1	1.7	0.4	
Return on sales excluding restructuring charges	2.1	1.8	0.3	

International Staffing includes the Company's APAC region staffing business prior to the transaction to form the PersolKelly Asia Pacific joint venture in the third quarter of 2016, resulting in a 19% decrease in International Staffing revenue from services. This decrease, partially offset by a 9% increase in hours volume and 3% increase in average bill rates (flat on a CC basis) from our European operations, accounted for the change in revenue from services. The increase in hours volume was primarily due to increases in Portugal, France and Russia. International Staffing represented 20% of total Company revenue in 2017 and 21% in 2016.

The decline in the gross profit rate from 2016 is due to change in customer mix, partially offset by a one-time benefit related to French payroll tax adjustments.

Total SG&A expenses decreased 10.4% on a reported basis, due primarily to the transfer of the APAC staffing business, which resulted in a 16% decrease. This decrease was partially offset by a 5% increase in SG&A expenses related to continued investments in recruiters in the European branch network, and the effect of higher bad debt expense. Included in total SG&A expenses for 2016 are restructuring charges of \$1.2 million. These charges reflect a repositioning of the operating model to pursue growth in staffing fee-based income and specialized temporary staffing business in Italy.

Results of Operations 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. This may result in an increase in our operating cash flows; however, any such increase would not be sustainable in the event that an economic downturn continued for an extended period. As highlighted in the consolidated statements of cash flows, our liquidity and available capital resources are impacted by four key components: cash, cash equivalents and restricted cash, operating activities, investing activities and financing activities.

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash totaled \$40.1 million at year-end 2018, compared to \$36.9 million at year-end 2017. As further described below, during 2018, we generated \$61.4 million of cash from operating activities, used \$29.8 million of cash for investing activities and used \$26.5 million of cash for financing activities.

Operating Activities

In 2018, we generated \$61.4 million of net cash from operating activities, as compared to generating \$70.8 million in 2017 and generating \$40.1 million in 2016. Other than recurring working capital changes, the change from 2017 to 2018 was primarily driven by an increase in performance based compensation payments. The change from 2016 to 2017 was primarily driven by a decrease in performance based compensation payments, partially offset by the impact of higher DSO.

Trade accounts receivable totaled \$1.3 billion at year-end 2018 and 2017. Global DSO for the fourth quarter was 55 days for 2018 and 2017.

Our working capital position (total current assets less total current liabilities) was \$503.0 million at year-end 2018, an increase of \$44.9 million from year-end 2017. The current ratio (total current assets divided by total current liabilities) was 1.6 at year-end 2018 and 1.5 at year-end 2017.

Investing Activities

In 2018, we used \$29.8 million of net cash for investing activities, compared to using \$61.0 million in 2017 and generating \$10.6 million in 2016. Included in cash used for investing activities in 2018 is \$7.0 million for loans to PersolKelly Asia Pacific to fund working capital requirements as a result of their sustained revenue growth and \$5.0 million for an investment in equity securities relating to the Company's investment in BTG, partially offset by \$7.9 million for proceeds from company-owned life insurance. Included in cash used for investing activities in 2017 is \$37.2 million for the acquisition of TOC, net of the cash received. Included in cash generated from investing activities in 2016 is \$23.3 million of net cash representing the cash received less the cash deconsolidated relating to the PersolKelly Asia Pacific joint venture transaction. Capital expenditures, which totaled \$25.6 million in 2018, \$24.6 million in 2017 and \$12.7 million in 2016, were primarily related to the Company's technology programs, IT infrastructure and headquarters building improvements in 2018 and 2017. Capital expenditures increased from 2016 to 2017 due to technology initiatives which were started in 2017.

Financing Activities

In 2018, we used \$26.5 million of cash for financing activities, as compared to using \$3.4 million in 2017 and using \$69.1 million in 2016. Changes in net cash from financing activities are primarily related to short-term borrowing activities. Debt totaled \$2.2 million at year-end 2018 and was \$10.2 million at year-end 2017. Debt-to-total capital (total debt reported on the balance sheet divided by total debt plus stockholders' equity) is a common ratio to measure the relative capital structure and leverage of the Company. Our ratio of debt-to-total capital was 0.2% at year-end 2018 and 0.9% at year-end 2017.

In 2018, the net change in short-term borrowings was primarily due to payments on our revolving credit facility. In 2017, the net change in short-term borrowings was primarily due to borrowings on our revolving credit facility. In 2016, the net change in short-term borrowings was primarily due to payments on our U.S. securitization facility.

Dividends paid per common share were \$0.30 in 2018 and 2017 and \$0.275 in 2016. Payments of dividends are restricted by the financial covenants contained in our debt facilities. Details of this restriction are contained in the Debt footnote in the notes to our consolidated financial statements.

Contractual Obligations and Commercial Commitments

Summarized below are our obligations and commitments to make future payments as of year-end 2018:

	Total	Payment due by period			
		Less than 1 year	1-3 Years	3-5 Years	More than 5 years
		(In millions of dollars)			
Operating leases	\$ 81.7	\$ 26.7	\$ 35.6	\$ 14.5	\$ 4.9
Short-term borrowings	2.2	2.2	—	—	—
Accrued workers' compensation	76.5	26.0	24.5	9.9	16.1
Accrued retirement benefits	178.6	16.5	31.7	31.7	98.7
Other liabilities	8.8	2.0	3.5	1.8	1.5
Uncertain income tax positions	1.4	0.3	0.6	0.1	0.4
Purchase obligations	33.1	19.3	13.3	0.5	—
Total	\$ 382.3	\$ 93.0	\$ 109.2	\$ 58.5	\$ 121.6

Purchase obligations above represent unconditional commitments relating primarily to online tools and voice and data communications services which we expect to utilize generally within the next two fiscal years, in the ordinary course of business. 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, available capacity under our securitization facility 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 2018 year 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.

At year-end 2018, we had \$150.0 million of available capacity on our \$150.0 million revolving credit facility and \$145.0 million of available capacity on our \$200.0 million securitization facility. The securitization facility had no short-term borrowings and \$55.0 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. Throughout 2018 and as of the 2018 year end, we met the debt covenants related to our revolving credit facility and securitization facility.

At year-end 2018, we also had additional unsecured, uncommitted short-term credit facilities totaling \$11.1 million, under which we had \$2.2 million of borrowings. Details of our debt facilities as of the 2018 year end are contained in the Debt footnote in the notes to our consolidated financial statements.

On January 2, 2019, we acquired the stock of two companies for \$85.0 million, using funds primarily from our securitization facility. See the Subsequent Events footnote in the notes to our consolidated financial statements for more information.

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.

Critical Accounting Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. In this process, it is necessary for us to make certain assumptions and related estimates affecting the amounts reported in the consolidated financial statements and the attached notes. Actual results can differ from assumed and estimated amounts.

Critical accounting estimates are those that we believe require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Judgments and uncertainties affecting the application of those estimates may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following estimates to be most critical in understanding the judgments involved in preparing our consolidated financial statements.

Workers' Compensation

In the U.S., we have a combination of insurance and self-insurance contracts under which we effectively bear the first \$1.0 million of risk per single accident. There is no aggregate limitation on our per-accident exposure under these insurance and self-insurance programs. We establish accruals for workers' compensation utilizing actuarial methods to estimate the undiscounted future cash payments that will be made to satisfy the claims, including an allowance for incurred-but-not-reported claims. We retain an independent consulting actuary to establish ultimate loss forecasts for the current and prior accident years of our insurance and self-insurance programs. The consulting actuary establishes loss development factors, based on our historical claims experience as well as industry experience, and applies those factors to current claims information to derive an estimate of our ultimate claims liability. In preparing the estimates, the consulting actuary may consider factors such as the nature, frequency and severity of the claims; reserving practices of our third party claims administrators; performance of our medical cost management and return to work programs; changes in our territory and business line mix; and current legal, economic and regulatory factors such as industry estimates of medical cost trends. Where appropriate, multiple generally accepted actuarial techniques are applied and tested in the course of preparing the loss forecast. We use the ultimate loss forecasts, as developed by the consulting actuary, to establish total expected program costs for each accident year by adding our estimates of non-loss costs such as claims handling fees and excess insurance premiums. When claims exceed the applicable loss limit or self-insured retention and realization of recovery of the claim from existing insurance policies is deemed probable, we record a receivable from the insurance company for the excess amount.

We evaluate the accrual quarterly and make adjustments as needed. The ultimate cost of these claims may be greater than or less than the established accrual. While we believe that the recorded amounts are reasonable, there can be no assurance that changes to our estimates will not occur due to limitations inherent in the estimation process. In the event we determine that a smaller or larger accrual is appropriate, we would record a credit or a charge to cost of services in the period in which we made such a determination. The accrual for workers' compensation, net of related receivables which are included in prepaid expenses and other current assets and other assets in the consolidated balance sheet, was \$61.4 million and \$59.4 million at year-end 2018 and 2017, respectively.

Income Taxes

Income tax expense is based on expected income and statutory tax rates in the various jurisdictions in which we operate. Judgment is required in determining our income tax expense. We establish accruals for uncertain tax positions under generally accepted accounting principles, which require that a position taken or expected to be taken in a tax return be recognized in the consolidated financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) the position would be sustained upon examination by tax authorities who have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Our effective tax rate includes the impact of accruals and changes to accruals that we consider appropriate, as well as related interest and penalties. A number of years may lapse before a particular matter, for which we have or have not established an

accrual, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals are appropriate under generally accepted accounting principles. Favorable or unfavorable adjustments of the accrual for any particular issue would be recognized as an increase or decrease to our income tax expense in the period of a change in facts and circumstances. Our current tax accruals are presented in income and other taxes in the consolidated balance sheet and long-term tax accruals are presented in other long-term liabilities in the consolidated balance sheet.

Tax laws require items to be included in the tax return at different times than the items are reflected in the consolidated financial statements. As a result, the income tax expense reflected in our consolidated financial statements is different than the liability reported in our tax return. Some of these differences are permanent, which are not deductible or taxable on our tax return, and some are temporary differences, which give rise to deferred tax assets and liabilities. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Our net deferred tax asset is recorded using currently enacted tax laws, and may need to be adjusted in the event tax laws change.

The U.S. work opportunity credit is allowed for wages earned by employees in certain targeted groups. The actual amount of creditable wages in a particular period is estimated, since the credit is only available once an employee reaches a minimum employment period and the employee's inclusion in a targeted group is certified by the applicable state. As these events often occur after the period the wages are earned, judgment is required in determining the amount of work opportunity credits accrued for in each period. We evaluate the accrual regularly throughout the year and make adjustments as needed.

Equity Method Investment

We account for our investment in PersolKelly Asia Pacific under the equity method of accounting. We review our equity method investment for indicators of impairment on a quarterly basis or whenever events or circumstances indicate the carrying amount may be other-than-temporarily impaired. An impairment assessment requires the exercise of judgment related to financial trends, forecasts, relevant events, as well as any operating, economic, legal or regulatory changes that may have an impact on the investment. There were no indicators of an other-than-temporary impairment in 2018 or 2017. As of year-end 2018 and 2017, the equity method investment was \$121.3 million and \$117.4 million, respectively. See the Investment in PersolKelly Asia Pacific footnote in the notes to our consolidated financial statements.

Goodwill

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. Generally accepted accounting principles require that goodwill be tested for impairment at a reporting unit level. We have determined that our reporting units are the same as our operating and reportable segments based on our organizational structure. Goodwill is tested for impairment by comparing the estimated fair value of a reporting unit to its carrying value. If the estimated fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the estimated fair value of a reporting unit, goodwill is deemed impaired and is written down to the extent of the difference.

To derive the estimated fair value of reporting units, we primarily relied on an income approach. Under the income approach, estimated fair value is determined based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the reporting unit being measured. Estimated future cash flows are based on our internal projection model and reflects management's outlook for the reporting units. Assumptions and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts.

We completed our annual impairment test for all reporting units with goodwill in the fourth quarter for the fiscal year ended 2018 and 2017 and determined that goodwill was not impaired. In 2018 and 2017, we performed a step one quantitative assessment for the Americas Staffing and GTS reporting units.

Our analysis used significant assumptions by segment, including: expected future revenue and expense growth rates, profit margins, cost of capital, discount rate and forecasted capital expenditures. Although we believe the assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. Different assumptions of the anticipated future results and growth from these businesses could result in an impairment charge, which would decrease operating income and result in lower asset values on our consolidated balance sheet. As a measure of sensitivity, both reporting units have an estimated fair value that is at least double the carrying value in 2018.

In addition, reducing our revenue growth rate assumptions to zero would not result in the estimated fair value falling below carrying value for both reporting units.

At year-end 2018 and 2017, total goodwill amounted to \$107.3 million and \$107.1 million, respectively. See the Goodwill footnote in the notes to our consolidated financial statements for more information.

Litigation

Kelly is subject to legal proceedings, investigations and claims arising out of the normal course of business. Kelly routinely assesses the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses. A determination of the amount of the accruals required, if any, for these contingencies is made after analysis of each known issue. Development of the analysis includes consideration of many factors including: potential exposure, the status of proceedings, negotiations, discussions with our outside counsel and results of similar litigation. The required accruals may change in the future due to new developments in each matter. For further discussion, see the Contingencies footnote in the notes to our consolidated financial statements. At year-end 2018 and 2017, the gross accrual for litigation costs amounted to \$12.8 million and \$5.3 million, respectively, which are included in accounts payable and accrued liabilities and in accrued workers' compensation and other claims in the consolidated balance sheet.

Allowance for Uncollectible Accounts Receivable

We make ongoing estimates relating to the collectibility of our trade accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and apply percentages to certain aged receivable categories. We also make judgments about the creditworthiness of significant customers based on ongoing credit evaluations, and we monitor historical trends that might impact the level of credit losses in the future. Historically, losses from uncollectible accounts have not exceeded our allowance. Since we cannot predict with certainty future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger allowance may be required.

In the event we determined that a smaller or larger allowance was appropriate, we would record a credit or a charge to SG&A expenses in the period in which we made such a determination. In addition, for billing adjustments related to errors, service issues and compromises on billing disputes, we also include a provision for sales allowances, based on our historical experience, in our allowance for uncollectible accounts receivable. If sales allowances vary from our historical experience, an adjustment to the allowance may be required, and we would record a credit or charge to revenue from services in the period in which we made such a determination. As of year-end 2018 and 2017, the allowance for uncollectible accounts receivable was \$13.2 million and \$12.9 million, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

See New Accounting Pronouncements footnote in the notes to our consolidated financial statements presented in Part II, Item 8 of this report for a description of new accounting pronouncements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, competitive market pressures including pricing and technology introductions and disruptions, changing market and economic conditions, our ability to achieve our business strategy, the risk of damage to our brand, the risk our intellectual property assets could be infringed upon or compromised, our ability to successfully develop new service offerings, our exposure to risks associated with services outside traditional staffing, including business process outsourcing, our increasing dependency on third parties for the execution of critical functions, the risks associated with past and future acquisitions, exposure to risks associated with investments in equity affiliates including PersolKelly Asia Pacific, material changes in demand from or loss of large corporate customers as well as changes in their buying practices, risks particular to doing business with the government or government contractors, risks associated with conducting business in foreign countries, including foreign currency fluctuations, the exposure to potential market and currency exchange risks relating to our investment in Persol Holdings, risks associated with violations of anti-corruption, trade protection and other laws and regulations, availability of qualified full-time employees, availability of temporary workers with appropriate skills required by customers, liabilities for employment-related claims and losses, including class action lawsuits and collective actions, risks arising from failure to preserve the privacy of information entrusted to us or to meet our obligations under global privacy laws, the risk of cyber attacks or other breaches of network or information technology security, our ability to sustain critical business applications through our key data centers, our ability to effectively implement and manage our information technology projects, our ability to maintain adequate financial and management processes and controls, risk of potential impairment charges triggered by adverse industry developments or operational circumstances, unexpected changes in claim trends on workers’ compensation, unemployment, disability and medical benefit plans, the impact of changes in laws and regulations (including federal, state and international tax laws), competition law risks, the risk of additional tax or unclaimed property liabilities in excess of our estimates, our ability to realize value from our tax credit and net operating loss carryforwards, 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 this report.

ITEM 7A. 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 and held by 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 2018 earnings.

We are exposed to market and currency risks on our investment in Persol Holdings, which may be material. The investment is stated at fair value and is marked to market through net earnings. Foreign currency fluctuations on this yen-denominated investment are reflected as a component of other comprehensive income. See Fair Value Measurements footnote in the notes to our consolidated financial statements of this Annual Report on Form 10-K 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required by this Item are set forth in the accompanying index on page 46 of this filing and are presented in pages 47-85.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our 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.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting is presented preceding the consolidated financial statements on page 47 of this report.

Attestation Report of Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP, independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 30, 2018, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

Information required by Part III with respect to Directors, Executive Officers and Corporate Governance (Item 10), Executive Compensation (Item 11), Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters (Item 12), Certain Relationships and Related Transactions, and Director Independence (Item 13) and Principal Accounting Fees and Services (Item 14), except as set forth under the titles “Executive Officers of the Registrant,” which is included on page 40, and “Code of Business Conduct and Ethics,” which is included on page 41, (Item 10), and except as set forth under the title “Equity Compensation Plan Information,” which is included on pages 41-42, (Item 12), is to be included in a definitive proxy statement filed not later than 120 days after the close of our fiscal year and the proxy statement, when filed, is incorporated in this report by reference.

ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT.

The following individuals serve as executive officers of the Company as of December 30, 2018:

<u>Name/Office</u>	<u>Age</u>	<u>Served as an Officer Since</u>	<u>Business Experience During Last 5 Years</u>
George S. Corona President and Chief Executive Officer	60	2000	Served as officer of the Company.
Teresa S. Carroll Executive Vice President, President, Global Talent Solutions and General Manager - Sales, Marketing and HR	53	2000	Served as officer of the Company.
Peter W. Quigley Executive Vice President, President, Global Staffing and General Manager - IT, Global Service and Global Business Service	57	2004	Served as officer of the Company.
Olivier G. Thiroit Executive Vice President and Chief Financial Officer	57	2008	Served as officer of the Company.
Hannah S. Lim-Johnson Senior Vice President and Chief Legal Officer	47	2017	September 2017 - Present Served as officer of the Company. October 2016 - April 2017 Deputy General Counsel, Chief Litigation Counsel & Assistant Corporate Secretary - PSEG, Newark, NJ June 2012 - September 2016 VP, Chief Litigation & Chief Compliance Counsel - ADT Corp, Boca Raton, FL
Laura S. Lockhart Vice President, Corporate Controller and Chief Accounting Officer	49	2008	Served as officer of the Company.

CODE OF BUSINESS CONDUCT AND ETHICS.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions. The Code of Business Conduct and Ethics is included as Exhibit 14 in the Index to Exhibits on page 86. We have posted our Code of Business Conduct and Ethics on our website at www.kellyservices.com. We intend to post any changes in or waivers from our Code of Business Conduct and Ethics applicable to any of these officers on our website.

ITEM 12. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

Equity Compensation Plan Information

The following table shows the number of shares of our Class A common stock that may be issued upon the exercise of outstanding options, warrants and rights, the weighted-average exercise price of outstanding options, warrants and rights, and the number of securities remaining available for future issuance under our equity compensation plans as of the fiscal year end for 2018.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders - Evergreen provision ^{(1), (2)}	—	\$ —	—
Equity compensation plans approved by security holders - Fixed Share provision ^{(1), (3)}	—	—	3,989,910
Equity compensation plans not approved by security holders ⁽⁴⁾	—	—	77,434
Total	—	\$ —	4,067,344

(1) The equity compensation plan approved by our stockholders is our Equity Incentive Plan.

(2) The Evergreen provision applied to shares granted prior to May 10, 2017, and the Equity Incentive Plan provided that the maximum number of shares available for grants, including stock options and restricted stock, was 15 percent of the outstanding Class A common stock, adjusted for plan activity over the preceding five years. The Company has no plans to issue additional shares under the Evergreen provision that was in effect prior to May 10, 2017.

The number of shares to be issued upon exercise of outstanding options, warrants and rights under the Evergreen provision excludes: 187,253 shares of restricted stock; performance shares that have been earned but not yet vested totaling 116,833 shares of financial measure performance awards, 57,493 shares of total shareholder return performance awards, and 23,701 shares of single financial measure performance awards; and performance shares granted to employees and not yet earned or vested totaling 179,124 shares of financial measure performance awards and 89,562 shares of total shareholder return performance awards, each calculated using an assumed maximum award performance level of 200%, at December 30, 2018.

(3) The Fixed Share provision applies to shares granted on and after May 10, 2017, and the amended Equity Incentive Plan provides that the maximum number of shares available for grants is 4,700,000.

The number of shares to be issued upon exercise of outstanding options, warrants and rights under the Fixed Share provision excludes: 168,312 shares of restricted stock; performance shares that have been earned but not yet vested totaling 54,409 of single financial measure performance awards; and performance shares granted to employees and not

yet earned or vested totaling 293,452 shares of financial measure performance awards and 146,722 shares of total shareholder return performance awards, each calculated using an assumed maximum award performance level of 200%, at December 30, 2018.

- (4) The Non-Employee Directors Deferred Compensation Plan is an equity compensation plan that has not been approved by our stockholders. This plan provides non-employee directors with the opportunity to defer all or a portion of the fees they receive. Participants may elect to have director fees that are paid in either cash or common stock, deferred into the plan. Participants choose from a list of investment funds as determined by the Company for their deferrals of cash. Deferrals of common stock must remain in common stock. Amounts deferred under the plan are subject to applicable tax withholding. The plan is intended to be a non-qualified deferred compensation arrangement in compliance with Section 409A of the Code. 100,000 shares were registered for use with issuing shares for this plan.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of this report:

(1) Financial statements:

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings for the three fiscal years ended December 30, 2018

Consolidated Statements of Comprehensive Income for the three fiscal years ended December 30, 2018

Consolidated Balance Sheets at December 30, 2018 and December 31, 2017

Consolidated Statements of Stockholders' Equity for the three fiscal years ended December 30, 2018

Consolidated Statements of Cash Flows for the three fiscal years ended December 30, 2018

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule -

For the three fiscal years ended December 30, 2018:

Schedule II - Valuation Reserves

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) The Exhibits are listed in the Index to Exhibits included beginning at page 86, which is incorporated herein by reference.

(b) The Index to Exhibits and required Exhibits are included following the Financial Statement Schedule beginning at page 86 of this filing.

(c) None.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 14, 2019

KELLY SERVICES, INC.

Registrant

By /s/ Olivier G. Thiot

Olivier G. Thiot

Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 14, 2019

* /s/ G. S. Corona

G. S. Corona

President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: February 14, 2019

* /s/ D. R. Parfet

D. R. Parfet

Chairman of the Board and Director

Date: February 14, 2019

* /s/ C. M. Adderley

C. M. Adderley

Director

Date: February 14, 2019

* /s/ G. S. Adolph

G. S. Adolph

Director

Date: February 14, 2019

* /s/ R. S. Cubbin

R. S. Cubbin

Director

Date: February 14, 2019

* /s/ J. E. Dutton

J. E. Dutton

Director

Date: February 14, 2019

* /s/ T. B. Larkin

T. B. Larkin

Director

Date: February 14, 2019

* /s/ L. A. Murphy

L. A. Murphy

Director

Date: February 14, 2019

* /s/ H. Takahashi

H. Takahashi

Director

SIGNATURES (continued)

Date: February 14, 2019

/s/ O. G. Thiot

O. G. Thiot

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

Date: February 14, 2019

/s/ L. S. Lockhart

L. S. Lockhart

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

Date: February 14, 2019

*By /s/ O.G. Thiot

O.G. Thiot

Attorney-in-Fact

KELLY SERVICES, INC. AND SUBSIDIARIES

**INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

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Management's Report on Internal Control Over Financial Reporting

The management of Kelly Services, Inc. (the "Company"), is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company;
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 30, 2018. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on our assessment, management determined that, as of December 30, 2018, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 30, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on pages 48-49.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Kelly Services, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kelly Services, Inc. and its subsidiaries (the “Company”) as of December 30, 2018 and December 31, 2017, and the related consolidated statements of earnings, comprehensive income, stockholders’ equity and cash flows for each of the three years ended December 30, 2018, December 31, 2017, and January 1, 2017, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years ended December 30, 2018, December 31, 2017, and January 1, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 20 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers and the manner in which it accounts for investments in equity securities in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Detroit, Michigan
February 14, 2019

We have served as the Company's auditor since 1960.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In millions of dollars except per share items)		
Revenue from services	\$ 5,513.9	\$ 5,374.4	\$ 5,276.8
Cost of services	<u>4,541.7</u>	<u>4,420.3</u>	<u>4,370.5</u>
Gross profit	972.2	954.1	906.3
Selling, general and administrative expenses	<u>884.8</u>	<u>870.8</u>	<u>843.1</u>
Earnings from operations	87.4	83.3	63.2
Loss on investment in Persol Holdings	(96.2)	—	—
Gain on investment in PersolKelly Asia Pacific	—	—	87.2
Other expense, net	<u>(0.6)</u>	<u>(1.6)</u>	<u>(0.7)</u>
Earnings (loss) before taxes and equity in net earnings (loss) of affiliate	(9.4)	81.7	149.7
Income tax (benefit) expense	<u>(27.1)</u>	<u>12.8</u>	<u>30.0</u>
Net earnings before equity in net earnings (loss) of affiliate	17.7	68.9	119.7
Equity in net earnings (loss) of affiliate	<u>5.2</u>	<u>2.7</u>	<u>1.1</u>
Net earnings	<u>\$ 22.9</u>	<u>\$ 71.6</u>	<u>\$ 120.8</u>
Basic earnings per share	\$ 0.59	\$ 1.84	\$ 3.10
Diluted earnings per share	\$ 0.58	\$ 1.81	\$ 3.08
Dividends per share	\$ 0.30	\$ 0.30	\$ 0.275
Average shares outstanding (millions):			
Basic	38.8	38.3	38.1
Diluted	39.1	39.0	38.4

See accompanying Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2018	2017	2016
	(In millions of dollars)		
Net earnings	\$ 22.9	\$ 71.6	\$ 120.8
Other comprehensive income, net of tax:			
Foreign currency translation adjustments, net of tax benefit of \$0.4 million, tax expense of \$0.2 million and tax expense of \$0.0 million, respectively	(8.4)	16.4	(0.6)
Less: Reclassification adjustments included in net earnings	(0.4)	—	(0.1)
Foreign currency translation adjustments	(8.8)	16.4	(0.7)
Unrealized gains (losses) on investment, net of tax expense of \$0.0 million, tax expense of \$30.2 million and tax benefit of \$0.7 million, respectively	—	56.2	(1.1)
Pension liability adjustments, net of tax expense of \$0.2 million, tax benefit of \$0.1 million and tax benefit of \$0.0 million, respectively	0.8	(0.6)	(0.3)
Less: Reclassification adjustments included in net earnings	0.1	0.1	0.1
Pension liability adjustments	0.9	(0.5)	(0.2)
Other comprehensive income (loss)	(7.9)	72.1	(2.0)
Comprehensive income	\$ 15.0	\$ 143.7	\$ 118.8

See accompanying Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	2018	2017
(In millions of dollars)		
Assets		
Current Assets		
Cash and equivalents	\$ 35.3	\$ 32.5
Trade accounts receivable, less allowances of \$13.2 million and \$12.9 million, respectively	1,293.3	1,286.7
Prepaid expenses and other current assets	71.9	65.1
Total current assets	1,400.5	1,384.3
Noncurrent Assets		
Property and equipment:		
Property and equipment	294.7	291.8
Accumulated depreciation	(208.4)	(205.7)
Net property and equipment	86.3	86.1
Deferred taxes	198.7	183.4
Goodwill, net	107.3	107.1
Investment in Persol Holdings	135.1	228.1
Investment in equity affiliate	121.3	117.4
Other assets	265.2	271.8
Total noncurrent assets	913.9	993.9
Total Assets	\$ 2,314.4	\$ 2,378.2

See accompanying Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	2018	2017
(In millions of dollars)		
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term borrowings	\$ 2.2	\$ 10.2
Accounts payable and accrued liabilities	540.6	537.7
Accrued payroll and related taxes	266.0	287.4
Accrued workers' compensation and other claims	26.0	25.7
Income and other taxes	62.7	65.2
Total current liabilities	897.5	926.2
Noncurrent Liabilities		
Accrued workers' compensation and other claims	50.5	49.9
Accrued retirement benefits	162.9	178.1
Other long-term liabilities	44.0	72.5
Total noncurrent liabilities	257.4	300.5
Commitments and contingencies (See Commitments and Contingencies footnotes)		
Stockholders' Equity		
Capital stock, \$1.00 par value		
Class A common stock, shares issued 36.6 million at 2018 and 2017	36.6	36.6
Class B common stock, shares issued 3.5 million at 2018 and 2017	3.5	3.5
Treasury stock, at cost		
Class A common stock, 1.2 million shares at 2018 and 1.7 million at 2017	(25.4)	(34.6)
Class B common stock	(0.6)	(0.6)
Paid-in capital	24.4	32.2
Earnings invested in the business	1,138.1	983.6
Accumulated other comprehensive income (loss)	(17.1)	130.8
Total stockholders' equity	1,159.5	1,151.5
Total Liabilities and Stockholders' Equity	\$ 2,314.4	\$ 2,378.2

See accompanying Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	2018	2017	2016
	(In millions of dollars)		
Capital Stock			
Class A common stock			
Balance at beginning of year	\$ 36.6	\$ 36.6	\$ 36.6
Conversions from Class B	—	—	—
Balance at end of year	36.6	36.6	36.6
Class B common stock			
Balance at beginning of year	3.5	3.5	3.5
Conversions to Class A	—	—	—
Balance at end of year	3.5	3.5	3.5
Treasury Stock			
Class A common stock			
Balance at beginning of year	(34.6)	(38.4)	(43.7)
Issuance of restricted stock and other	9.2	3.8	5.3
Balance at end of year	(25.4)	(34.6)	(38.4)
Class B common stock			
Balance at beginning of year	(0.6)	(0.6)	(0.6)
Issuance of restricted stock and other	—	—	—
Balance at end of year	(0.6)	(0.6)	(0.6)
Paid-in Capital			
Balance at beginning of year	32.2	28.6	25.4
Issuance of restricted stock and other	(7.8)	3.6	3.2
Balance at end of year	24.4	32.2	28.6
Earnings Invested in the Business			
Balance at beginning of year	983.6	923.6	813.5
Cumulative-effect adjustment from adoption of ASU 2016-01, Financial Instruments	140.0	—	—
Cumulative-effect adjustment from adoption of ASU 2014-09, Revenue	3.4	—	—
Net earnings	22.9	71.6	120.8
Dividends	(11.8)	(11.6)	(10.7)
Balance at end of year	1,138.1	983.6	923.6
Accumulated Other Comprehensive Income (Loss)			
Balance at beginning of year	130.8	58.7	60.7
Cumulative-effect adjustment from adoption of ASU 2016-01, Financial Instruments	(140.0)	—	—
Other comprehensive income (loss), net of tax	(7.9)	72.1	(2.0)
Balance at end of year	(17.1)	130.8	58.7
Stockholders' Equity at end of year	\$ 1,159.5	\$ 1,151.5	\$ 1,012.0

See accompanying Notes to Consolidated Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2018	2017	2016
	(In millions of dollars)		
Cash flows from operating activities:			
Net earnings	\$ 22.9	\$ 71.6	\$ 120.8
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	26.2	22.7	21.3
Provision for bad debts	3.0	5.6	11.0
Stock-based compensation	8.1	9.1	10.2
Deferred income taxes	(47.5)	(5.9)	7.4
Loss on investment in Persol Holdings	96.2	—	—
Gain on investment in PersolKelly Asia Pacific	—	—	(87.2)
Equity in net earnings of PersolKelly Asia Pacific	(5.2)	(2.7)	(1.1)
Other, net	(0.8)	0.2	(2.8)
Changes in operating assets and liabilities, net of acquisition	(41.5)	(29.8)	(39.5)
Net cash from operating activities	61.4	70.8	40.1
Cash flows from investing activities:			
Capital expenditures	(25.6)	(24.6)	(12.7)
Acquisition of company, net of cash received	—	(37.2)	—
Investment in equity securities	(5.0)	—	—
Net cash proceeds from investment in PersolKelly Asia Pacific equity affiliate	—	—	23.3
(Loan to) proceeds from repayment of loan to equity affiliate	(7.0)	0.6	—
Proceeds from company-owned life insurance	7.9	—	—
Other investing activities	(0.1)	0.2	—
Net cash (used in) from investing activities	(29.8)	(61.0)	10.6
Cash flows from financing activities:			
Net change in short-term borrowings	(7.8)	10.1	(55.9)
Dividend payments	(11.8)	(11.6)	(10.7)
Payments of tax withholding for restricted shares	(6.9)	(1.8)	(2.2)
Other financing activities	—	(0.1)	(0.3)
Net cash used in financing activities	(26.5)	(3.4)	(69.1)
Effect of exchange rates on cash, cash equivalents and restricted cash	(1.9)	(3.8)	6.3
Net change in cash, cash equivalents and restricted cash	3.2	2.6	(12.1)
Cash, cash equivalents and restricted cash at beginning of year	36.9	34.3	46.4
Cash, cash equivalents and restricted cash at end of year ⁽¹⁾	\$ 40.1	\$ 36.9	\$ 34.3

KELLY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(1) The following table provides a reconciliation of cash, cash equivalents and restricted cash to the amounts reported in our consolidated balance sheet:

	2018	2017	2016
(In millions of dollars)			
Reconciliation of cash, cash equivalents and restricted cash:			
Current assets:			
Cash and cash equivalents	\$ 35.3	\$ 32.5	\$ 29.6
Restricted cash included in prepaid expenses and other current assets	0.1	—	0.4
Noncurrent assets:			
Restricted cash included in other assets	4.7	4.4	4.3
Cash, cash equivalents and restricted cash at end of year	\$ 40.1	\$ 36.9	\$ 34.3

See accompanying Notes to Consolidated Financial Statements.

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

1. Summary of Significant Accounting Policies

Nature of Operations Kelly Services, Inc. is a global workforce solutions provider operating throughout the world.

Fiscal Year The Company's fiscal year ends on the Sunday nearest to December 31. The three most recent years ended on December 30, 2018 (2018), December 31, 2017 (2017) and January 1, 2017 (2016), all of which contained 52 weeks. Period costs included in selling, general and administrative ("SG&A") expenses are recorded on a calendar-year basis. The Company's operations in Brazil are accounted for on a one-month lag. The Company's equity investment in PersolKelly Asia Pacific are accounted for on a one-quarter lag (see Investment in PersolKelly Asia Pacific footnote). Any material transactions in the intervening period are disclosed or accounted for in the current reporting period.

Principles of Consolidation The consolidated financial statements include the accounts and operations of the Company and its wholly owned subsidiaries. In connection with the Company's investment in PersolKelly Asia Pacific in the third quarter of 2016, the Commercial and PT staffing operations and certain OCG businesses in the APAC region were deconsolidated at that time. Certain prior period amounts have been reclassified to conform to the current presentation. All intercompany accounts and transactions have been eliminated.

Investment in Persol Holdings The Company's investment in Persol Holdings, as further described in the Investment in Persol Holdings footnote, is carried at fair value with the changes in fair value recognized in net earnings. The fair value of the investment is based on the quoted market price.

Investment in PersolKelly Asia Pacific The Company has a 49% ownership interest in their equity affiliate, PersolKelly Asia Pacific, which is accounted for under the equity method. The operating results of the equity affiliate are recorded on a one-quarter lag and included in equity in net earnings (loss) of affiliate in the consolidated statements of earnings.

Foreign Currency Translation All of the Company's international subsidiaries use their local currency as their functional currency, which is the currency in which they transact the majority of their activities. Revenue and expense accounts of foreign subsidiaries are translated to U.S. dollars at average exchange rates, while assets and liabilities are translated to U.S. dollars at year-end exchange rates. Resulting translation adjustments, net of tax, where applicable, are reported as accumulated foreign currency translation adjustments in stockholders' equity and are recorded as a component of accumulated other comprehensive income (loss).

Revenue Recognition See Revenue footnote for a description of the accounting policy related to revenue recognition.

Cost of Services Cost of services are those costs directly associated with the earning of revenue. The primary examples of these types of costs are temporary employee wages, along with other employee related costs, including associated payroll taxes, temporary employee benefits, such as service bonus and holiday pay, and workers' compensation costs. These costs differ fundamentally from SG&A expenses in that they arise specifically from the action of providing our services to customers whereas SG&A costs are incurred regardless of whether or not we place temporary employees with our customers.

Advertising Expenses Advertising expenses, which are expensed as incurred and are included in SG&A expenses, were \$8.7 million in 2018, \$7.9 million in 2017 and \$7.6 million in 2016.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for uncollectible accounts receivable, workers' compensation, goodwill and long-lived asset impairment, impairment of equity affiliates, litigation costs and income taxes. Actual results could differ materially from those estimates.

Cash and Equivalents Cash and equivalents are stated at fair value. The Company considers securities with original maturities of three months or less to be cash and equivalents.

Property and Equipment Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives. Cost and estimated useful lives of property and equipment by function are as follows:

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

Category	2018	2017	Life
	(In millions of dollars)		
Land	\$ 3.8	\$ 3.8	—
Work in process	12.2	5.3	—
Buildings and improvements	65.3	64.9	15 to 45 years
Computer hardware and software	153.3	154.2	3 to 12 years
Equipment, furniture and fixtures	34.6	37.9	5 years
Leasehold improvements	25.5	25.7	The lesser of the life of the lease or 5 years.
Total property and equipment	\$ 294.7	\$ 291.8	

The Company capitalizes external costs and internal payroll costs directly incurred in the development of software for internal use as required by the Internal-Use Software Subtopic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Work in process represents capitalized costs for internal use software not yet in service. Depreciation expense was \$24.0 million for 2018, \$21.8 million for 2017 and \$20.7 million for 2016.

Operating Leases The Company recognizes rent expense on a straight-line basis over the lease term. This includes the impact of both scheduled rent increases and free or reduced rents (commonly referred to as “rent holidays”). The Company records allowances provided by landlords for leasehold improvements as deferred rent in the consolidated balance sheet and as operating cash flows in the consolidated statements of cash flows.

Goodwill and Other Intangible Assets Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Purchased intangible assets with definite lives are recorded at estimated fair value at the date of acquisition and are amortized over their respective useful lives (from 3 to 15 years) on a straight-line basis or, if appropriate, on an accelerated basis commensurate with the related cash flows.

Impairment of Long-Lived Assets, Intangible Assets, Goodwill, Equity Method Investments and Equity Securities The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When estimated undiscounted future cash flows will not be sufficient to recover the asset group’s carrying amount, in which the long-lived asset being tested for impairment resides, the asset is written down to its estimated fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or estimated fair value less cost to sell.

We test goodwill for impairment at the reporting unit level annually in the fourth quarter and whenever events or circumstances make it more likely than not that an impairment may have occurred. We have determined that our reporting units are the same as our operating and reportable segments based on our organizational structure. Goodwill is tested for impairment by comparing the estimated fair value of a reporting unit to its carrying value. To derive the estimated fair value of reporting units, we primarily relied on an income approach. Under the income approach, estimated fair value is determined based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the reporting unit being measured. Estimated future cash flows are based on our internal projection model and reflects management’s outlook for the reporting units.

If the estimated fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the estimated fair value of a reporting unit, goodwill is deemed impaired and is written down to the extent of the difference.

We evaluate our equity method investment as well as any equity securities measured under the measurement alternative for indicators of impairment on a periodic basis or whenever events or circumstances indicate the carrying amount may be other-than-temporarily impaired. If we conclude that there is an other-than-temporary impairment of our equity method investment or equity securities, we will adjust our carrying amount of our investment to the adjusted fair value.

Accounts Payable Included in accounts payable are book overdrafts, which are outstanding checks in excess of funds on deposit. Such amounts totaled \$7.3 million at year-end 2018 and 2017.

Accrued Payroll and Related Taxes Included in accrued payroll and related taxes are book overdrafts, which are outstanding checks in excess of funds on deposit. Such amounts totaled \$22.9 million and \$18.6 million at year-end 2018 and 2017,

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

respectively. Payroll taxes for temporary employees are recognized proportionately to direct wages for interim periods based on expected full-year amounts.

Income Taxes The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The U.S. work opportunity credit is allowed for wages earned by employees in certain targeted groups. The actual amount of creditable wages in a particular period is estimated, since the credit is only available once an employee reaches a minimum employment period and the employee's inclusion in a targeted group is certified by the applicable state. As these events often occur after the period the wages are earned, judgment is required in determining the amount of work opportunity credits accrued for in each period. We evaluate the accrual regularly throughout the year and make adjustments as needed.

Uncertain tax positions that are taken or expected to be taken in a tax return are recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Interest and penalties related to income taxes are classified as income tax expense. U.S. taxes on global intangible low-taxed income ("GILTI") are accounted for as incurred.

Stock-Based Compensation The Company may grant restricted stock awards and units (collectively, "restricted stock"), stock options (both incentive and nonqualified), stock appreciation rights and performance awards to key employees associated with the Company's Class A stock. The Company utilizes the market price on the date of grant as the fair value for restricted stock and the market price on the date of grant less the present value of the expected dividends not received during the vesting period for performance awards. The Company also estimates a fair value of performance awards related to relative total shareholder return using a Monte Carlo simulation model. The Company estimates the fair value of stock option awards, if any, on the date of grant using an option-pricing model. The value of awards is recognized as expense, net of forfeitures as they occur, over the requisite service periods in SG&A expense in the Company's consolidated statements of earnings.

Earnings Per Share Restricted stock that entitle their holders to receive nonforfeitable dividends before vesting are considered participating securities and, therefore, are included in the calculation of earnings per share using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Under this method, earnings from continuing operations (or net earnings) is reduced by the amount of dividends declared, and the remaining undistributed earnings is allocated to common stock and participating securities based on the proportion of each class's weighted average shares outstanding to the total weighted average shares outstanding. The calculation of diluted earnings per share includes the effect of potential common shares outstanding in the average weighted shares outstanding.

Workers' Compensation In the U.S., the Company has a combination of insurance and self-insurance contracts under which we effectively bear the first \$1.0 million of risk per single accident. The Company establishes accruals for workers' compensation claims utilizing actuarial methods to estimate the undiscounted future cash payments that will be made to satisfy the claims, including an allowance for incurred-but-not-reported claims. The Company retains an independent consulting actuary to establish loss development factors, based on historical claims experience as well as industry experience, and applies those factors to current claims information to derive an estimate of the ultimate claims liability.

In preparing the estimates, the consulting actuary considers a number of assumptions and multiple generally accepted actuarial methods in the course of preparing the loss forecast for claims. When claims exceed the applicable loss limit or self-insured retention and realization of recovery of the claim from existing insurance policies is deemed probable, the Company records a receivable from the insurance company for the excess amount. The receivable is included in prepaid expenses and other current assets and other assets in the consolidated balance sheet at year end. The Company evaluates the accrual quarterly throughout the year and makes adjustments as needed, and the ultimate cost of these claims may be greater than or less than the established accrual.

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

2. Revenue

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, we adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”), using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605.

We recorded a net increase to opening earnings invested in the business of \$3.4 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact is primarily driven by the deferral of contract costs related to our customer contracts of \$5.2 million, partially offset by deferring revenue billed at a point in time for services performed over time of \$0.6 million and a deferred tax liability of \$1.2 million. As of and for year to date 2018, the consolidated financial statements were not materially impacted as a result of the application of Topic 606 compared to Topic 605.

Revenue Recognition

Revenues are recognized when control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Our revenues are recorded net of any sales, value added, or similar taxes collected from our customers.

We generate revenue from: the hourly sales of services by our temporary employees to customers (“staffing solutions” revenue), the recruiting of permanent employees for our customers (“permanent placement” revenue), and through our talent fulfillment and outcome-based activities (“talent solutions” and “outcome-based services” revenue).

We record 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 Kelly 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 our customers and by having a level of discretion in establishing pricing in which the gross amount is recorded as revenues. When Kelly 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 our customers are net of the amounts paid to the secondary suppliers/service providers and the net amount is recorded as revenues.

Staffing Solutions Revenue

Staffing solutions can be branch-delivered (Americas and EMEA regions) or centrally delivered (within Global Talent Solutions (“GTS”). Our Americas Staffing segment is organized to deliver services in a number of specialty staffing solutions, which are summarized as: commercial, specialized professional/technical (“PT”) and educational staffing. Staffing solutions 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 our staffing solutions services continues to be recognized over time as the customer simultaneously receives and consumes the services we provide. 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.

Permanent Placement Revenue

Permanent placement solutions can be branch-delivered (Americas and EMEA regions) or centrally delivered (within GTS). Our 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. As such, we consider this the point the control transfers to the customer.

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

Talent Solutions and Outcome-Based Services Revenue

In addition to centrally delivered staffing services, our GTS segment also includes talent solutions (contingent workforce outsourcing “CWO”, payroll process outsourcing “PPO” and recruitment process outsourcing “RPO”) and outcome-based services (business process outsourcing “BPO”, KellyConnect, career transition/outplacement services and talent advisory services). Billings 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 talent solutions services and our outcome-based services over time as the customer simultaneously receives and consumes the services we provide. 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.

The following table presents our segment revenues disaggregated by service type (in millions):

	2018
Branch-Delivered Staffing	
Americas Staffing	
Staffing Solutions	
Commercial	\$ 1,679.6
Educational Staffing	428.0
Professional/Technical	272.2
Permanent Placement	37.9
Total Americas Staffing	2,417.7
International Staffing	
Staffing Solutions	1,087.7
Permanent Placement	28.9
Total International Staffing	1,116.6
Global Talent Solutions	
Talent Fulfillment	
Staffing Solutions	1,117.6
Permanent Placement	1.9
Talent Solutions	362.8
Total Talent Fulfillment	1,482.3
Outcome-Based Services	515.1
Total Global Talent Solutions	1,997.4
Total Intersegment	(17.8)
Total Revenue from Services	\$ 5,513.9

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

Our operations are subject to different economic and regulatory environments depending on geographic location. Our GTS segment operates in Americas, EMEA and APAC regions. For 2018 and 2017, GTS made up \$1,929.3 million and \$1,943.3 million in total Americas, respectively, \$45.9 million and \$37.4 million in total EMEA, respectively, and the entire balance in APAC. The below table presents our revenues disaggregated by geography (in millions):

	December Year to Date	
	2018	2017
Americas		
United States	\$ 3,930.0	\$ 3,894.6
Canada	142.4	140.3
Mexico	125.0	118.8
Puerto Rico	96.6	68.3
Brazil	35.2	48.6
Total Americas	4,329.2	4,270.6
EMEA		
France	278.9	277.1
Switzerland	212.7	216.9
Portugal	196.9	176.0
United Kingdom	108.8	88.7
Russia	100.4	93.2
Italy	77.5	61.9
Germany	57.1	59.9
Ireland	44.6	32.0
Norway	34.4	33.3
Other	51.2	46.5
Total EMEA	1,162.5	1,085.5
Total APAC	22.2	18.3
Total Kelly Services, Inc.	\$ 5,513.9	\$ 5,374.4

Variable Consideration

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.

Payment Terms

Customer payments are typically due within 60 days of invoicing, but may be shorter or longer depending on contract terms. Management does not assess whether a contract has a significant financing component if the expectation at contract inception is that the period between payment by the customer and the transfer of the services to the customer will be less than one year. We do not have any significant financing components or extended payment terms.

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

Deferred Revenue

Items which are billed to the customer at a point in time, rather than billed over time as the services are delivered to the customer, are assessed for potential revenue deferral. At this time, the balance of the contract liability as well as the amount of revenue recognized in the reporting period that was included in the deferred revenue balance at the beginning of the period is not material.

Deferred Costs

Sales commissions paid at initial contract inception and upon contract renewal by our sales team are considered incremental and recoverable costs of obtaining a contract with a customer. The sales commissions (and related fringe benefits such as taxes and benefits) are deferred and then amortized on a straight-line basis over an appropriate period of benefit that we have determined to be contract duration. We determined the period of benefit by taking into consideration our customer contracts and other relevant factors. Anticipated renewal periods are not included in the amortization period of the initial commission. Amortization expense is included in SG&A expenses in the consolidated statements of earnings. As a practical expedient, sales commissions with amortization periods of 12 months or less are expensed as incurred. These costs are recorded in SG&A expenses in the consolidated statements of earnings.

Deferred sales commissions, which are included in other assets in the consolidated balance sheet, were \$2.3 million as of year-end 2018 and \$3.2 million as of January 1, 2018. Amortization expense for the deferred costs was \$1.7 million for 2018. As of year-end 2018, there was no impairment loss in relation to the costs capitalized.

Occasionally, fulfillment costs are incurred after obtaining a contract in order to generate a resource that will be used to provide our services. These costs are considered incremental and recoverable costs to fulfill our contract with the customer. These costs to fulfill a contract are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be the average length of assignment of the employees. We determined the period of benefit by taking into consideration our customer contracts, attrition rates and other relevant factors. Amortization expense is included in SG&A expenses in the consolidated statements of earnings.

Deferred fulfillment costs, which are included in prepaid expenses and other current assets in the consolidated balance sheet, were \$3.0 million as of year-end 2018 and \$2.0 million as of January 1, 2018. Amortization expense for the deferred costs was \$13.0 million for 2018. As of year-end 2018, there was no impairment loss in relation to the costs capitalized.

Unsatisfied Performance Obligations

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

3. Acquisition

On September 5, 2017, Kelly Services USA, LLC, a wholly owned subsidiary of the Company, acquired 100% of the issued and outstanding shares of Teachers On Call, Inc. ("TOC"), an educational staffing firm in the U.S. for a purchase price of \$41.0 million. Under terms of the purchase agreement, the purchase price was adjusted for cash held by TOC at the closing date less an estimated working capital adjustment resulting in the Company paying cash of \$39.0 million at closing. In the first quarter of 2018, the Company paid a working capital adjustment of \$0.2 million, resulting in an increase of goodwill (see Goodwill footnote).

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

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

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

Goodwill generated from this acquisition is primarily attributable to expected synergies from combining operations and expanding market potential, and is assigned to the Americas Staffing reporting unit. The amount of goodwill expected to be deductible for tax purposes is approximately \$18.8 million as of year-end 2018. An indemnification asset of \$2.8 million was recognized as of the acquisition date related to pre-acquisition tax liabilities. As of year-end 2018, the indemnification asset is \$0.1 million with the change driven by cash received from the seller to pay pre-acquisition tax liabilities.

4. Investment in Persol Holdings

The Company has a yen-denominated investment in the common stock of Persol Holdings, the Company's joint venture partner in PersolKelly Asia Pacific. As our investment is a noncontrolling interest in Persol Holdings, this investment is recorded at fair value based on the quoted market price of Persol Holdings stock on the Tokyo Stock Exchange as of the period end (see Fair Value Measurements footnote). The Company adopted Accounting Standards Update ("ASU") 2016-01 and as a result, effective January 1, 2018, all changes in fair value on the investment are recognized in net earnings which previously were recorded in other comprehensive income.

Accordingly, for the year ended 2018, a loss on the investment of \$96.2 million was recorded entirely in the loss on investment in Persol Holdings in the consolidated statements of earnings. During 2017, an unrealized gain, net of tax, of \$56.2 million was recorded in other comprehensive income, and in accumulated other comprehensive income (loss), a component of stockholders' equity. A cumulative catch-up adjustment of the prior net unrealized gains previously recorded in other comprehensive income, and in accumulated other comprehensive income (loss), a component of stockholders' equity, was recorded in earnings invested in the business as of January 1, 2018 for \$140.0 million, net of \$69.9 million of taxes.

5. Investment in PersolKelly Asia Pacific

In 2016, the Company and Persol Holdings, a leading integrated human resources company in Japan, completed a transaction to form a new joint venture, PersolKelly Asia Pacific. The Company transferred its APAC staffing operations in exchange for a 49% ownership interest in PersolKelly Asia Pacific and \$36.5 million in cash received at closing. The Company subsequently deconsolidated the contributed APAC staffing operations and recorded a \$104.2 million investment in equity affiliate in the consolidated balance sheet, which represented the fair value of the Company's ownership interest in PersolKelly Asia Pacific as of the date of the transaction. As part of this transaction, in the third quarter of 2016, the Company deconsolidated the goodwill related to the contributed entities in our previous APAC PT and OCG segments amounting to \$1.9 million. In the fourth quarter of 2016, the Company received a \$4.5 million post-close cash true-up adjustment from Persol Holdings.

The operating results of the Company's interest in PersolKelly Asia Pacific are accounted for on a one-quarter lag under the equity method and are included in equity in net earnings (loss) of affiliate in the consolidated statements of earnings, which amounted to \$5.2 million in 2018, \$2.7 million in 2017 and \$1.1 million in 2016. PersolKelly Asia Pacific will perform its annual impairment test of goodwill in its fourth quarter. Any impairment, if required, would then be recorded by the Company based on the one-quarter lag. We would consider any impairment recorded by PersolKelly Asia Pacific to be a triggering event to perform our own impairment analysis regarding our investment in PersolKelly Asia Pacific. The Company also evaluates the investment in PersolKelly Asia Pacific for potential impairment quarterly or whenever events or changes in circumstances indicate that there is an other than temporary decline in the value of the investment.

In the third quarter of 2016, the Company recorded a pretax gain of \$87.2 million on the investment in PersolKelly Asia Pacific in the consolidated statements of earnings, which represented the fair value of the Company's retained investment in

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

PersolKelly Asia Pacific in addition to the cash received less the carrying value of net assets transferred to the joint venture. Income taxes of \$23.5 million on this gain resulted primarily from recording deferred income taxes on outside basis differences. The fair value of the Company's contributed operations was determined using both an income-based and market-based approach. The income approach utilized a discounted cash flow analysis which included significant assumptions about the timing of future cash flows, growth rates and discount rates commensurate with the underlying risks of the investment. The market approach entailed deriving market multiples from publicly traded companies with similar financial and operating characteristics to PersolKelly Asia Pacific and corroborated the results of the discounted cash flow method.

The investment in equity affiliate on the Company's consolidated balance sheet totaled \$121.3 million as of year-end 2018 and \$117.4 million as of year-end 2017. The net amount due from PersolKelly Asia Pacific, a related party, was \$10.2 million as of year-end 2018, including loans made to PersolKelly Asia Pacific for a total of \$7.0 million in 2018 to fund working capital requirements as a result of their sustained revenue growth. The net amount due to PersolKelly Asia Pacific was \$2.3 million as of year-end 2017. The amount included in trade accounts payable for staffing services provided by PersolKelly Asia Pacific as a supplier to secondary supplier programs was \$0.2 million as of year-end 2018 and \$2.5 million as of year-end 2017. In 2017, TS Kelly Workforce Solutions, a previous joint venture which was transferred to PersolKelly Asia Pacific in the first quarter of 2017, made a loan repayment of \$0.6 million to the Company.

6. 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 as of year-end 2018 and 2017 in the consolidated balance sheet by fair value hierarchy level, as described below.

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

Description	Fair Value Measurements on a Recurring Basis As of Year-End 2018			
	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	\$ 4.6	\$ 4.6	\$ —	\$ —
Investment in Persol Holdings	135.1	135.1	—	—
Total assets at fair value	<u>\$ 139.7</u>	<u>\$ 139.7</u>	<u>\$ —</u>	<u>\$ —</u>

Description	Fair Value Measurements on a Recurring Basis As of Year-End 2017			
	Total	Level 1	Level 2	Level 3
	(In millions of dollars)			
Money market funds	\$ 4.3	\$ 4.3	\$ —	\$ —
Investment in Persol Holdings	228.1	228.1	—	—
Total assets at fair value	<u>\$ 232.4</u>	<u>\$ 232.4</u>	<u>\$ —</u>	<u>\$ —</u>

Money market funds as of year-end 2018 and 2017 represent investments in money market accounts, all of which are restricted as to use and are included in other assets in the consolidated balance sheet. The money market funds that are restricted as to use account for the majority of our restricted cash balance and represents cash balances that are required to be maintained to fund disability claims in California. The valuations of money market funds were based on quoted market prices of those accounts as of the respective period end.

The valuation of the investment in Persol Holdings is based on the quoted market price of Persol Holdings stock on the Tokyo Stock Exchange as of the period end. Effective January 1, 2018, the changes in fair value of this investment are recorded in the

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

consolidated statements of earnings (see Investment in Persol Holdings footnote). In 2017, changes in fair value were recorded in other comprehensive income, and in accumulated other comprehensive income (loss), a component of stockholders' equity. The cost of this yen-denominated investment, which fluctuates based on foreign exchange rates, was \$18.8 million at year-end 2018 and \$18.4 million at year-end 2017.

Equity Investment Without Readily Determinable Fair Value

The Company made a minority investment in Business Talent Group, LLC ("BTG") in the third quarter of 2018, which is included in other assets in the consolidated balance sheet. This investment is measured using the measurement alternative for equity investments without a readily determinable fair value. The measurement alternative represents cost, less impairment, plus or minus observable price changes. The carrying amount of \$5.0 million represents the purchase price. There have been no adjustments to the carrying amount or impairments on the investment as of year-end 2018.

Assets Measured at Fair Value on a Nonrecurring Basis

We completed our annual impairment test of goodwill for all reporting units in the fourth quarter for the fiscal years ended 2018 and 2017 and determined that goodwill was not impaired.

In 2018 and 2017, we performed a step one quantitative test for all of our reporting units with goodwill. For both years, the estimated fair value of each reporting unit tested exceeded its related carrying value. As a result of these quantitative assessments, we determined it was more likely than not that the fair value of each of the reporting units was more than its carrying value.

7. Goodwill

The changes in the carrying amount of goodwill for the fiscal year 2018 are included in the table below. See Acquisition footnote for a description of the additions to goodwill in 2018.

	As of Year-End 2017	Additions to Goodwill	As of Year-End 2018
	(In millions of dollars)		
Americas Staffing	\$ 44.6	\$ 0.2	\$ 44.8
Global Talent Solutions	62.5	—	62.5
International Staffing	—	—	—
	<u>\$ 107.1</u>	<u>\$ 0.2</u>	<u>\$ 107.3</u>

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

8. Other Assets

Included in other assets are the following:

	2018	2017
	(In millions of dollars)	
Life insurance cash surrender value (see Retirement Benefits footnote)	\$ 172.5	\$ 188.7
French CICE ⁽¹⁾	26.4	28.1
Intangibles, net of accumulated amortization of \$19.6 million in 2018 and \$18.6 million in 2017 ⁽²⁾	16.5	18.2
Long-term customer receivable	12.4	12.4
Workers' compensation and other claims receivable ⁽³⁾	8.6	10.5
Other ⁽⁴⁾	28.8	13.9
Other assets	<u>\$ 265.2</u>	<u>\$ 271.8</u>

⁽¹⁾ French CICE is a wage subsidy receivable related to a law to enhance the competitiveness of businesses in France.

⁽²⁾ In 2017, \$18.3 million of intangibles were acquired through the acquisition of TOC, made up of \$12.0 million in customer relationships, \$4.8 million associated with TOC's trademark and \$1.5 million for a candidate database. The customer relationships are being amortized on a straight-line basis over 10 years with no residual value and the database is being amortized on a straight-line basis over four years with no residual value. The trademark has an indefinite life. Intangible amortization expense, which is included in SG&A expenses, was \$1.8 million, \$0.9 million and \$0.6 million in 2018, 2017 and 2016, respectively. The amortization expense for the intangibles acquired in 2017 will be \$1.6 million in 2019 and 2020, \$1.5 million in 2021 and \$1.2 million in 2022 and 2023.

⁽³⁾ Workers' compensation and other claims receivable represents receivables from the insurance company for U.S. workers' compensation and automobile liability claims in excess of the applicable loss limits.

⁽⁴⁾ The increase in Other as of year-end 2018 is primarily due to \$7.0 million related to loans to our equity affiliate (see Investment in PersolKelly Asia Pacific footnote); \$5.0 million related to the minority investment in BTG and \$2.3 million for deferred sales commissions.

9. Debt

Short-Term Debt

The Company has a \$150.0 million revolving credit facility (the "Facility") with a termination date of December 6, 2021. The Facility allows for borrowings in various currencies and is available to be used to fund working capital, acquisitions and general corporate needs. The Facility is secured by assets of the Company, excluding trade accounts receivable.

At year-end 2018, there were no borrowings under the Facility and a remaining borrowing capacity of \$150.0 million. At year-end 2017, borrowings under the Facility were \$9.5 million with an interest rate of 4.70%, and the remaining borrowing capacity was \$140.5 million. To maintain availability of the funds, we pay a facility fee on the full amount of the Facility, regardless of usage. The facility fee varies based on the Company's leverage ratio as defined in the agreement. The Facility, which contains a cross-default clause that could result in termination if defaults occur under our other loan agreements, had a facility fee of 17.5 basis points at year-end 2018 and 2017. The Facility's financial covenants and restrictions are described below, all of which were met at year-end 2018:

- We must maintain a certain minimum ratio of earnings before interest, taxes, depreciation, amortization and certain cash and non-cash charges that are non-recurring in nature ("EBITDA") to interest expense ("Interest Coverage Ratio") as of the end of any fiscal quarter.
- We must maintain a certain maximum ratio of total indebtedness to the sum of net worth and total indebtedness at all times.
- Dividends, stock buybacks and similar transactions are limited to certain maximum amounts.
- We must adhere to other operating restrictions relating to the conduct of business, such as certain limitations on asset sales and the type and scope of investments.

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

The Company has a Receivables Purchase Agreement with Kelly Receivables Funding, LLC, a wholly owned bankruptcy remote special purpose subsidiary of the Company (the "Receivables Entity"), related to its \$200.0 million, three-year, securitization facility (the "Securitization Facility"). The Receivables Purchase Agreement will terminate December 5, 2019, unless terminated earlier pursuant to its terms.

Under the Securitization Facility, the Company will sell certain trade receivables and related rights ("Receivables"), on a revolving basis, to the Receivables Entity. The Receivables Entity may from time to time sell an undivided variable percentage ownership interest in the Receivables. The Securitization Facility, which contains a cross-default clause that could result in termination if defaults occur under our other loan agreements, also allows for the issuance of standby letters of credit ("SBLC") and contains certain restrictions based on the performance of the Receivables.

As of year-end 2018, the Securitization Facility had no short-term borrowings, SBLCs of \$55.0 million related to workers' compensation at a rate of 0.90% and a remaining capacity of \$145.0 million. As of year-end 2017, the Securitization Facility had no short-term borrowings, SBLCs of \$55.0 million related to workers' compensation at a rate of 0.90% and a remaining capacity of \$145.0 million. The rate for short-term borrowings includes the LIBOR interest rate and a utilization rate on the amount of our borrowings. The rates for the SBLCs represent a utilization rate on the outstanding amount of the SBLCs. In addition, we pay a commitment fee of 40 basis points on the unused capacity.

The Receivables Entity's sole business consists of the purchase or acceptance through capital contributions of trade accounts receivable and related rights from the Company. As described above, the Receivables Entity may retransfer these receivables or grant a security interest in those receivables under the terms and conditions of the Receivables Purchase Agreement. The Receivables Entity is a separate legal entity with its own creditors who would be entitled, if it were ever liquidated, to be satisfied out of its assets prior to any assets or value in the Receivables Entity becoming available to its equity holders, the Company. The assets of the Receivables Entity are not available to pay creditors of the Company or any of its other subsidiaries, until the creditors of the Receivables Entity have been satisfied. The assets and liabilities of the Receivables Entity are included in the consolidated financial statements of the Company.

The Company had total unsecured, uncommitted short-term local credit facilities of \$11.1 million as of year-end 2018. There were \$2.2 million borrowings under these lines at year-end 2018 compared to \$0.7 million at year-end 2017. The weighted average interest rate for these borrowings, which were primarily related to India, was 8.42% at year-end 2018 and 8.23% at year-end 2017.

10. Retirement Benefits

U.S. Defined Contribution Plans

The Company provides a qualified defined contribution plan covering substantially all U.S.-based full-time employees, except officers and certain other employees. The plan offers a savings feature with Company matching contributions. Assets of this plan are held by an independent trustee for the sole benefit of participating employees.

A nonqualified plan is provided for officers and certain other employees. This plan includes provisions for salary deferrals and Company matching contributions.

In addition to the plans above, the Company also provides a qualified plan and a nonqualified plan to certain U.S.-based temporary employees.

The liability for the nonqualified plans was \$174.8 million and \$188.3 million as of year-end 2018 and 2017, respectively, and is included in current accrued payroll and related taxes and noncurrent accrued retirement benefits in the consolidated balance sheet. The cost of participants' earnings or loss on this liability, which were included in SG&A expenses in the consolidated statements of earnings, were a loss of \$8.6 million in 2018, earnings of \$22.3 million in 2017 and earnings of \$10.5 million in 2016.

In connection with the administration of these plans, the Company has purchased company-owned variable universal life insurance policies insuring the lives of certain current and former officers and key employees. The cash surrender value of these policies, which is based primarily on investments in mutual funds and can only be used for payment of the Company's obligations related to the nonqualified deferred compensation plan noted above, was \$172.5 million and \$188.7 million at year-end 2018 and 2017, respectively. The cash surrender value of these insurance policies is included in other assets in the consolidated balance sheet. During 2018, proceeds of \$7.9 million were received in connection with a partial surrender of these policies. Tax-free earnings or loss on these assets, which were included in SG&A expenses in the consolidated statements of earnings and which offset the related earnings or loss on the liability, were a loss of \$8.8 million in 2018, earnings of \$22.3 million in 2017 and earnings of \$9.7 million in 2016.

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

The net expense for retirement benefits for the qualified and nonqualified plans, including Company matching contributions for full-time employees, totaled \$9.5 million in 2018, \$8.6 million in 2017 and \$9.0 million in 2016. This expense is included in total SG&A expenses in the consolidated statements of earnings. The expense related to retirement plan contributions for temporary employees, which is included in cost of services, is reimbursed by our customers.

International Defined Benefit Plans

The Company has several defined benefit pension plans in locations outside of the United States. The total projected benefit obligation, assets and unfunded liability for these plans as of year-end 2018 were \$11.7 million, \$7.9 million and \$3.8 million, respectively. The total projected benefit obligation, assets and unfunded liability for these plans as of year-end 2017 were \$13.3 million, \$8.4 million and \$4.9 million, respectively. Total pension expense for these plans was \$0.5 million in 2018 and \$0.4 million in 2017 and 2016. Pension contributions and the amount of accumulated other comprehensive income expected to be recognized in 2019 are not significant.

11. Stockholders' Equity

Common Stock

The authorized capital stock of the Company is 100,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock. Class A shares have no voting rights and are not convertible. Class B shares have voting rights and are convertible by the holder into Class A shares on a share-for-share basis at any time. Both classes of stock have identical rights in the event of liquidation.

Class A shares and Class B shares are both entitled to receive dividends, subject to the limitation that no cash dividend on the Class B shares may be declared unless the board of directors declares an equal or larger cash dividend on the Class A shares. As a result, a cash dividend may be declared on the Class A shares without declaring a cash dividend on the Class B shares.

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

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, net of tax, during 2018, 2017 and 2016 are included in the table below. Amounts in parentheses indicate debits. See Investment in Persol Holdings footnote for a description of the cumulative-effect adjustment from the adoption of ASU 2016-01.

	2018	2017	2016
	(In millions of dollars)		
Foreign currency translation adjustments:			
Beginning balance	\$ (6.9)	\$ (23.3)	\$ (22.6)
Other comprehensive income (loss) before classifications	(8.4)	16.4	(0.6)
Amounts reclassified from accumulated other comprehensive income	(0.4) ⁽¹⁾	—	(0.1) ⁽¹⁾
Net current-period other comprehensive income (loss)	<u>(8.8)</u>	<u>16.4</u>	<u>(0.7)</u>
Ending balance	(15.7)	(6.9)	(23.3)
Unrealized gains and losses on investment:			
Beginning balance	140.0	83.8	84.9
Cumulative-effect adjustment from adoption of ASU 2016-01, Financial Instruments	(140.0)	—	—
Other comprehensive income (loss) before classifications	—	56.2	(1.1)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current-period other comprehensive income (loss)	<u>(140.0)</u>	<u>56.2</u>	<u>(1.1)</u>
Ending balance	—	140.0	83.8
Pension liability adjustments:			
Beginning balance	(2.3)	(1.8)	(1.6)
Other comprehensive income (loss) before classifications	0.8	(0.6)	(0.3)
Amounts reclassified from accumulated other comprehensive income	0.1 ⁽²⁾	0.1 ⁽²⁾	0.1 ⁽²⁾
Net current-period other comprehensive income (loss)	<u>0.9</u>	<u>(0.5)</u>	<u>(0.2)</u>
Ending balance	(1.4)	(2.3)	(1.8)
Total accumulated other comprehensive income (loss)	<u><u>\$ (17.1)</u></u>	<u><u>\$ 130.8</u></u>	<u><u>\$ 58.7</u></u>

(1) Amount was recorded in the other expense, net line item in the consolidated statements of earnings.

(2) Amount was recorded in the SG&A expenses line item in the consolidated statements of earnings.

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

12. Earnings Per Share

The reconciliation of basic earnings per share on common stock for the year-end 2018, 2017 and 2016 follows (in millions of dollars except per share data).

	2018	2017	2016
Net earnings	\$ 22.9	\$ 71.6	\$ 120.8
Less: Earnings allocated to participating securities	(0.2)	(1.1)	(2.6)
Net earnings available to common shareholders	<u>\$ 22.7</u>	<u>\$ 70.5</u>	<u>\$ 118.2</u>
Average common shares outstanding (millions):			
Basic	38.8	38.3	38.1
Dilutive share awards	0.3	0.7	0.3
Diluted	<u>39.1</u>	<u>39.0</u>	<u>38.4</u>
Basic earnings per share	\$ 0.59	\$ 1.84	\$ 3.10
Diluted earnings per share	\$ 0.58	\$ 1.81	\$ 3.08

Potentially dilutive shares outstanding are primarily related to performance shares for 2018, 2017, and 2016. Stock options excluded from the computation of diluted earnings per share due to their anti-dilutive effect for 2016 were not significant, and all remaining stock options expired in the second quarter of 2016.

We have presented earnings per share for our two classes of common stock on a combined basis. This presentation is consistent with the earnings per share computations that result for each class of common stock utilizing the two-class method as described in ASC Topic 260, "Earnings Per Share". The two-class method is an earnings allocation formula which determines earnings per share for each class of common stock according to the dividends declared (or accumulated) and participation rights in the undistributed earnings.

In applying the two class method, we have determined that the undistributed earnings should be allocated to each class on a pro rata basis after consideration of all of the participation rights of the Class B shares (including voting and conversion rights) and our history of paying dividends equally to each class of common stock on a per share basis.

The Company's Restated Certificate of Incorporation allows the board of directors to declare a cash dividend to Class A shares without declaring equal dividends to the Class B shares. Class B shares' voting and conversion rights, however, effectively allow the Class B shares to participate in dividends equally with Class A shares on a per share basis.

The Class B shares are the only shares with voting rights. The Class B shareholders are therefore able to exercise voting control with respect to all matters requiring stockholder approval, including the election of or removal of directors. The board of directors has historically declared and the Company historically has paid equal per share dividends on both the Class A and Class B shares. Each class has participated equally in all dividends declared since 1987.

In addition, Class B shares are convertible, at the option of the holder, into Class A shares on a one-for-one basis. As a result, Class B shares can participate equally in any dividends declared on the Class A shares by exercising their conversion rights.

13. Stock-Based Compensation

Under the Equity Incentive Plan, amended and restated February 15, 2017 and approved by the stockholders of the Company on May 10, 2017 (the "EIP"), the Company may grant stock options (both incentive and nonqualified), stock appreciation rights, restricted stock and performance awards to key employees associated with the Company's Class A stock. For shares granted prior to May 10, 2017, the EIP provides that the maximum number of shares available for grants is 15% of the outstanding Class A Stock, adjusted for EIP activity over the preceding five years. For shares granted after May 10, 2017, the amended EIP provides that the maximum number of shares available for grants is 4.7 million. The Company has no plans to issue additional shares under the provision that was in effect prior to May 10, 2017. Under the provision that was in effect for shares granted after May 10, 2017, shares available for future grants at year-end 2018 were 4.0 million. The Company issues shares out of treasury stock to satisfy stock-based awards. The Company presently has no intent to repurchase additional shares for the purpose of satisfying stock-based awards.

The Company recognized stock-based compensation cost of \$8.1 million in 2018, \$9.1 million in 2017 and \$10.2 million in 2016, as well as related tax benefits of \$4.4 million in 2018, \$4.2 million in 2017 and \$3.9 million in 2016.

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

Restricted Stock

Restricted stock, which typically vests over four years, is issued to certain key employees and is subject to forfeiture until the end of an established restriction period. The Company utilizes the market price of its Class A stock on the date of grant as the fair value of restricted stock and expenses the fair value on a straight-line basis over the vesting period.

A summary of the status of nonvested restricted stock under the EIP as of year-end 2018 and changes during this period is presented as follows below (in thousands of shares except per share data):

	Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested at year-end 2017	440	\$ 18.76
Granted	157	28.79
Vested	(187)	17.67
Forfeited	(54)	20.78
Nonvested at year-end 2018	356	\$ 23.44

As of year-end 2018, unrecognized compensation cost related to unvested restricted stock totaled \$6.1 million. The weighted average period over which this cost is expected to be recognized is approximately 1.8 years. The weighted average grant date fair value per share of restricted stock granted during 2018, 2017 and 2016 was \$28.79, \$21.97 and \$17.08, respectively. The total fair value of restricted stock, which vested during 2018, 2017 and 2016, was \$4.9 million, \$5.8 million and \$6.4 million, respectively.

Performance Shares

During 2018, 2017, and 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 gross profit and operating earnings performance goals over a stated period of time.

2018 Grant

For the 2018 performance share grant ("2018 grant"), the total target number of performance shares granted is 222,000, of which 177,000 shares are eligible to earn up to the maximum number of performance shares of 355,000, which assumes 200% of the target shares originally granted. Target shares of 118,000 may be earned upon achievement of two financial goals ("financial measure performance shares") and target shares of 59,000 may be earned based on the Company's total shareholder return ("TSR") relative to the S&P SmallCap 600 Index ("TSR performance shares"). These financial measure performance and TSR performance shares have a three-year performance period through December 31, 2020 and if earned, will cliff-vest after the approval by the Compensation Committee, which will be no later than March 15, 2021, if not forfeited by the recipient. No dividends are paid on financial measure and TSR performance shares. The 2018 grant also included 45,000 single financial measure performance shares, which have one performance measure with a one-year performance period. These single financial measure performance shares vest over four years and earn dividends, which are not paid until the awards vest.

The financial measure performance shares have a weighted average grant date fair value of \$28.40. For each of the two financial measures, there are annual goals set in February of each year, with the total award payout based on a cumulative average of the 2018, 2019, and 2020 goals. Accordingly, the Company remeasures the fair value of the 2018 financial measure performance shares each reporting period until the 2020 goals are set, after which the fair value will be fixed for the remaining performance period. As of year-end 2018, the current fair value for financial measure performance shares is \$19.41. The total nonvested shares at maximum level (200%) related to financial measure performance awards at year-end 2018 is 219,000.

The TSR performance shares have an estimated fair value of \$31.38, which was computed using a Monte Carlo simulation model incorporating assumptions for inputs of expected stock price volatility, dividend yield and risk-free rate. The total nonvested shares at maximum level (200%) related to TSR performance awards at year-end 2018 is 109,000.

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

2017 Grant

For the 2017 performance share grant (“2017 grant”), the total target number of performance shares granted is 387,000, of which 304,000 shares are eligible to earn up to the maximum number of performance shares of 609,000, which assumes 200% of the target shares originally granted. Target shares of 203,000 may be earned upon the achievement of two financial goals (“financial measure performance shares”) and target shares of 101,000 may be earned based on the Company’s total shareholder return relative to the S&P SmallCap 600 Index (“TSR performance shares”). These financial measure performance and TSR performance shares have a three-year performance period through December 31, 2019, and if earned, will cliff-vest after the approval by the Compensation Committee, which will be no later than March 15, 2020, if not forfeited by the recipient. No dividends are paid on financial measure and TSR performance shares. The 2017 grant also included 83,000 single financial measure performance shares, which have one performance measure with a one-year performance period. These single financial measure performance shares vest over four years and earn dividends, which are not paid until the awards vest.

The financial measure performance shares have a weighted average grant date fair value of \$21.07. For each of the two financial measures, there are annual goals set in February of each year, with the total award payout based on a cumulative average of the 2017, 2018 and 2019 goals. Accordingly, the Company remeasures the fair value of the 2017 financial measure performance shares each reporting period until the 2019 goals are set, after which the fair value will be fixed for the remaining performance period. As of year-end 2018, the current fair value for financial measure performance shares is \$19.41. The total nonvested shares at maximum level (200%) related to financial measure performance awards at year-end 2018 is 254,000.

The TSR performance shares have an estimated fair value of \$20.16, which was computed using a Monte Carlo simulation model incorporating assumptions for inputs of expected stock price volatility, dividend yield and risk-free interest rate. The total nonvested shares at maximum level (200%) related to TSR performance awards at year-end 2018 is 127,000.

2016 Grant

For the 2016 performance share grant (“2016 grant”), the total target number of performance shares granted is 332,000, 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 249,000 may be earned upon the achievement of three financial goals (“financial measure performance shares”) and target shares of 83,000 may be earned based on the Company’s total shareholder return relative to the S&P SmallCap 600 Index (“TSR performance shares”). These financial measure performance and TSR performance shares had a three-year performance period through December 31, 2018. No dividends were paid on financial measure or TSR performance shares.

The financial measure performance shares, which have a weighted average grant date fair value of \$15.85. 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. During the first quarter of 2018, the final year of goals was set and the grant date fair value for the 2016 financial measure performance shares was set at \$28.40, and remained fixed for the remaining performance period. Based upon the level of achievement of specific financial performance goals for the 2016 grant, participants had the ability to receive up to 200% of the target number of shares originally granted. On February 13, 2019, the Compensation Committee approved the actual performance achievement of the financial measure performance shares for the 2016 grant. Actual performance resulted in participants achieving approximately 70% of target. These shares will cliff-vest after the approval by the Compensation Committee, which will be no later than March 15, 2019, if not forfeited by the recipient. The total nonvested shares related to the financial measure performance awards at year-end 2018 is 117,000.

The TSR performance shares 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. Based upon the level of achievement of the Company’s TSR relative to the S&P SmallCap 600 Index for the 2016 grant, participants had the ability to receive up to 200% of the target number of shares originally granted. On February 13, 2019, the Compensation Committee approved the actual achievement of the TSR performance shares for the 2016 grant. Actual performance resulted in participants achieving approximately 104% of target. These shares will cliff-vest after the approval by the Compensation Committee, which will be no later than March 15, 2019, if not forfeited by the recipient. The total nonvested shares related to the TSR performance awards at year-end 2018 is 57,000.

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

A summary of the status of all nonvested performance shares at target for 2018 is presented as follows below (in thousands of shares except per share data). The majority of the vested shares below is related to the 2015 performance share grant, which cliff-vested after approval from the Compensation Committee during the first quarter of 2018.

	Financial Measure Performance Shares		TSR Performance Shares	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at year-end 2017	592	\$ 22.32	240	\$ 18.17
Granted	163	28.64	59	31.38
Vested	(229)	16.62	(109)	16.01
Forfeited	(45)	26.18	(17)	22.94
Nonvested at year-end 2018	481	\$ 23.58	173	\$ 23.56

As of year-end 2018, unrecognized compensation cost related to all unvested financial measure performance shares and TSR performance shares totaled \$2.1 million and \$1.6 million, respectively. The weighted average period over which the costs are expected to be recognized is approximately 1.7 years for both financial measure performance shares and TSR performance shares. The total fair value of financial measure performance shares and TSR performance shares, which vested during 2018, was \$7.7 million and \$6.3 million, respectively.

14. Other Expense, Net

Included in other expense, net are the following:

	2018	2017	2016
	(In millions of dollars)		
Interest income	\$ 0.8	\$ 0.7	\$ 0.4
Interest expense	(3.1)	(2.7)	(3.8)
Dividend income	1.6	1.5	1.2
Foreign exchange gains (losses)	0.3	(1.1)	1.6
Other	(0.2)	—	(0.1)
Other expense, net	\$ (0.6)	\$ (1.6)	\$ (0.7)

Dividend income includes dividends earned on the Company's investment in Persol Holdings (see Investment in Persol Holdings footnote).

15. Income Taxes

Earnings (loss) before taxes and equity in net earnings (loss) of affiliate for the years 2018, 2017 and 2016 were taxed under the following jurisdictions:

	2018	2017	2016
	(In millions of dollars)		
Domestic	\$ 53.1	\$ 55.2	\$ 112.4
Foreign	(62.5)	26.5	37.3
Total	\$ (9.4)	\$ 81.7	\$ 149.7

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

The provision for income taxes was as follows:

	2018	2017	2016
	(In millions of dollars)		
Current tax expense:			
U.S. federal	\$ 6.1	\$ 6.6	\$ 10.2
U.S. state and local	3.1	2.4	2.4
Foreign	11.2	9.7	10.0
Total current	<u>20.4</u>	<u>18.7</u>	<u>22.6</u>
Deferred tax (benefit) expense:			
U.S. federal	(15.6)	0.4	11.8
U.S. state and local	1.0	0.1	2.0
Foreign	(32.9)	(6.4)	(6.4)
Total deferred	<u>(47.5)</u>	<u>(5.9)</u>	<u>7.4</u>
Total provision	<u>\$ (27.1)</u>	<u>\$ 12.8</u>	<u>\$ 30.0</u>

Deferred taxes are comprised of the following:

	2018	2017
	(In millions of dollars)	
Depreciation and amortization	\$ (15.6)	\$ (13.4)
Employee compensation and benefit plans	52.0	57.3
Workers' compensation	15.0	14.5
Unrealized gain on securities	(30.9)	(60.1)
Investment in equity affiliate	(15.8)	(15.5)
Loss carryforwards	30.8	38.8
Credit carryforwards	155.6	132.7
Other, net	3.9	3.1
Valuation allowance	(27.8)	(34.6)
Net deferred tax assets	<u>\$ 167.2</u>	<u>\$ 122.8</u>

The deferred tax balance is classified in the consolidated balance sheet as:

	2018	2017
	(In millions of dollars)	
Deferred tax asset	\$ 198.7	\$ 183.4
Other long-term liabilities	(31.5)	(60.6)
	<u>\$ 167.2</u>	<u>\$ 122.8</u>

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

The differences between income taxes from continuing operations for financial reporting purposes and the U.S. statutory rate of 21% in 2018 and 35% in 2017 and 2016 are as follows:

	2018	2017	2016
	(In millions of dollars)		
Income tax based on statutory rate	\$ (2.0)	\$ 28.6	\$ 52.4
State income taxes, net of federal benefit	3.2	1.6	2.9
Foreign tax rate differential	(8.3)	(1.5)	(4.5)
General business credits	(22.6)	(18.1)	(17.0)
Life insurance cash surrender value	2.1	(7.4)	(3.0)
Foreign items	1.9	(1.3)	4.9
GILTI, net of foreign tax credit	0.5	—	—
Foreign-derived intangible income	(0.9)	—	—
Foreign business taxes	4.2	4.0	3.6
Non-deductible expenses	2.6	1.3	1.6
Tax law change	(0.5)	13.9	—
PersolKelly Asia Pacific transaction gain	—	—	(4.8)
Change in deferred tax realizability	(4.3)	(7.8)	(5.9)
Stock compensation	(3.0)	(0.7)	—
Other, net	—	0.2	(0.2)
Total	<u>\$ (27.1)</u>	<u>\$ 12.8</u>	<u>\$ 30.0</u>

Our tax benefit or 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, changes in judgment regarding the realizability of deferred tax assets, or the tax effects of stock compensation. With the Company's adoption of ASU 2016-01 in the first quarter of 2018, changes in the fair value of the Company's investment in Persol Holdings are now recognized in the consolidated statements of earnings. These investment gains or losses are treated as discrete since they cannot be estimated.

Several items have contributed to the variance in our income tax benefit or expense over the last three years. Income tax benefit for 2018 included a \$29.4 million benefit from the loss on our investment in Persol Holdings, a lower U.S. income tax rate, and a benefit on the release of valuation allowances in Australia, offset by non-deductible losses on life insurance policies. Income tax expense in 2017 included a \$13.9 million charge to revalue net deferred tax assets due to the U.S. Tax Cuts and Jobs Act ("the Act"), which reduced the U.S. federal corporate income tax rate from 35% to 21%. This charge was offset by a benefit from tax-exempt income on life insurance policies, and a benefit from the release of valuation allowances in Norway, Germany and France. Income tax expense in 2016 included a \$23.5 million charge from the gain on the investment in PersolKelly Asia Pacific, offset by a benefit from the release of valuation allowances in Italy.

General business credits primarily represent U.S. work opportunity credits. Foreign items include foreign tax credits, foreign non-deductible expenses and non-taxable income. Foreign business taxes include the French business tax and other taxes based on revenue less certain expenses and are classified as income taxes under ASC Topic 740 ("ASC 740"), Income Taxes. Non-deductible expenses include executive compensation and business meals and entertainment. For 2017, tax law change represents the revaluing of net deferred tax assets as a result of the Act. Among other things, the Act reduced the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018, and imposed a one-time transition tax on the Company's accumulated foreign earnings. For year-end 2017, the Company anticipated that the one-time transition tax under the Act would be zero. In accordance with SEC Staff Accounting Bulletin 118, a provisional amount of zero was recorded due to the need for additional analysis of historical data. During the third quarter of 2018, we completed our analysis of foreign subsidiary earnings and profits and finalized our transition tax calculation. Consistent with our estimate at year-end 2017, the transition tax was zero.

The Company has U.S. general business credit carryforwards of \$149.6 million which will expire from 2033 to 2038, foreign tax credit carryforwards of \$5.9 million that expire from 2022 to 2028 and \$0.1 million of state credit carryforwards that expire from 2026 to 2038, or have no expiration. The net tax effect of state and foreign loss carryforwards at year-end 2018 totaled \$30.8 million, which expire as follows (in millions of dollars):

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

Year	Amount
2019-2020	\$ 0.7
2021-2035	0.6
No expiration	29.5
Total	<u>\$ 30.8</u>

The work opportunity credit program generates a significant tax benefit. It is a temporary provision in the U.S. tax law and expires for employees hired after 2019. While the work opportunity credit has routinely been extended, it is uncertain whether it will again be extended. In the event the program is not renewed, we will continue to receive credits for qualified employees hired prior to 2020.

The Company has established a valuation allowance for loss carryforwards and future deductible items in certain foreign jurisdictions, and for U.S. foreign tax credit carryforwards. The valuation allowance is determined in accordance with the provisions of ASC 740, which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. The Company's recent losses in these foreign jurisdictions, and its recent lack of adequate U.S. foreign source income to fully utilize foreign tax credit carryforwards, represented sufficient negative evidence to require a valuation allowance under ASC 740. The Company intends to maintain a valuation allowance until sufficient positive evidence exists to support realization of the foreign deferred tax assets. Sustained profitability by our United Kingdom subsidiaries makes release of their \$14.2 million valuation allowance possible in the near term.

Provision has not been made for additional income taxes on an estimated \$141.8 million of undistributed earnings which are indefinitely reinvested. If these earnings were to be repatriated, the Company could be subject to foreign withholding tax and federal and state income tax, net of federal benefit, of \$8.9 million. There would also be income taxes on foreign exchange gains or losses.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2018	2017	2016
	(In millions of dollars)		
Balance at beginning of the year	\$ 1.2	\$ 1.4	\$ 1.7
Additions for prior years' tax positions	—	—	0.1
Reductions for prior years' tax positions	—	—	—
Additions for settlements	—	—	—
Reductions for settlements	—	—	—
Reductions for expiration of statutes	(0.1)	(0.2)	(0.4)
Balance at end of the year	<u>\$ 1.1</u>	<u>\$ 1.2</u>	<u>\$ 1.4</u>

If the \$1.1 million in 2018, \$1.2 million in 2017 and \$1.4 million in 2016 of unrecognized tax benefits were recognized, they would have a favorable effect of \$0.9 million in 2018, \$1.0 million in 2017 and \$1.0 million in 2016 on income tax expense.

The Company recognizes both interest and penalties as part of the income tax provision. Interest and penalties expense in 2018, 2017 and 2016 were not significant. Accrued interest and penalties were \$0.2 million at year-end 2018 and 2017.

The Company files income tax returns in the U.S. and in various states and foreign countries. The tax periods open to examination by the major taxing jurisdictions to which the Company is subject include the U.S. for fiscal years 2015 through 2018, Canada for fiscal years 2011 through 2018, France for fiscal years 2013 through 2018, Mexico for fiscal years 2013 through 2018, Portugal for fiscal years 2015 through 2018, Russia for fiscal years 2016 through 2018, Switzerland for fiscal years 2009 through 2018, and the United Kingdom for fiscal years 2002 through 2018.

The Company and its subsidiaries have various income tax returns in the process of examination. The unrecognized tax benefit and related interest and penalty balances include approximately \$0.3 million for 2018, related to tax positions which are reasonably possible to change within the next twelve months due to income tax audits, settlements and statute expirations.

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

16. Supplemental Cash Flow Information

Changes in operating assets and liabilities, net of acquisition, as disclosed in the statements of cash flows, for the fiscal years 2018, 2017 and 2016, respectively, were as follows:

	2018	2017	2016
	(In millions of dollars)		
Increase in trade accounts receivable	\$ (32.0)	\$ (126.2)	\$ (93.9)
Increase in prepaid expenses and other assets	(9.5)	(14.2)	(10.5)
Increase in accounts payable and accrued liabilities	17.0	63.9	58.4
(Decrease) increase in accrued payroll and related taxes	(21.0)	32.9	1.9
Increase in accrued workers' compensation and other claims	1.9	6.7	2.4
Increase in income and other taxes	2.1	7.1	2.2
Total changes in operating assets and liabilities, net of acquisition	<u>\$ (41.5)</u>	<u>\$ (29.8)</u>	<u>\$ (39.5)</u>

The Company paid interest of \$1.6 million in 2018, \$1.9 million in 2017 and \$2.7 million in 2016. The Company paid income taxes of \$18.3 million in 2018, \$20.1 million in 2017 and \$24.0 million in 2016.

Non-cash capital expenditures totaled \$1.8 million, \$3.0 million and \$1.7 million at year-end 2018, 2017 and 2016, respectively.

17. Commitments

The Company conducts its branch-based operations primarily from leased facilities. The following is a schedule by fiscal year of future minimum commitments under operating leases as of year-end 2018 (in millions of dollars):

Fiscal year:	
2019	\$ 26.7
2020	20.4
2021	15.2
2022	9.8
2023	4.7
Later years	4.9
Total	<u>\$ 81.7</u>

Lease expense for fiscal 2018, 2017 and 2016 amounted to \$31.4 million, \$31.3 million and \$33.1 million, respectively.

In addition to operating lease agreements, the Company has entered into noncancelable purchase obligations totaling \$33.1 million. These obligations relate primarily to online tools and voice and data communications services which the Company expects to utilize generally within the next two fiscal years, in the ordinary course of business. The Company has no material unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities. See the Debt and Retirement Benefits footnotes for commitments related to debt and pension obligations.

18. Contingencies

In the ordinary course of business, the Company is continuously engaged in litigation, threatened litigation, or investigations arising in the ordinary course of its business, such as matters alleging auto liability, employment discrimination, wage and hour violations, claims for indemnification or liability, or violations of privacy rights or anti-competition regulations, which could result in a material adverse outcome. There are matters that were stayed pending a decision from the United States Supreme Court in the matter of *Epic Systems Corp. v. Lewis*, regarding the enforceability of class action waivers in favor of arbitration. On May 21, 2018, the Court determined that class action waivers in employment contracts are enforceable. As a result of the ruling, the majority of courts have been enforcing our arbitration agreements and class action waivers, and staying class action matters pending the results of the individual arbitration proceedings.

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

We record accruals for loss contingencies when we believe it is probable that liability has been incurred and the amount of loss can be reasonably estimated. Such accruals are recorded in accounts payable and accrued liabilities and in accrued workers' compensation and other claims in the consolidated balance sheet. At year-end 2018 and 2017, the gross accrual for litigation costs amounted to \$12.8 million and \$5.3 million, respectively.

The Company maintains insurance coverage which may cover certain claims. When claims exceed the applicable loss limit and realization of recovery of the claim from existing insurance policies is deemed probable, the Company records receivables from the insurance company for the excess amount, which are included in prepaid expenses and other current assets in the consolidated balance sheet. At year-end 2018, the related insurance recoveries amounted to \$6.1 million. As of year-end 2017, there were no insurance recoveries.

The Company estimates the aggregate range of reasonably possible losses, in excess of amounts accrued, is zero to \$2.1 million as of year-end 2018. This range includes matters where a liability has been accrued but it is reasonably possible that the ultimate loss may exceed the amount accrued and for matters where a loss is believed to be reasonably possible, but a liability has not been accrued. The aggregate range only represents matters in which we are currently able to estimate a range of loss and does not represent our maximum loss exposure. The estimated range is subject to significant judgment and a variety of assumptions and only based upon currently available information. For other matters, we are currently not able to estimate the reasonably possible loss or range of loss.

While the ultimate outcome of these matters cannot be predicted with certainty, we believe that the resolution of any such proceedings will not have a material adverse effect on our financial condition, results of operations or cash flows.

19. Segment Disclosures

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the CODM (the Company's CEO) to determine resource allocation and assess performance. The Company's three reportable segments, (1) Americas Staffing, (2) GTS and (3) International Staffing, reflect how the Company delivers services to customers and how its business is organized internally. Intersegment revenue represents revenue earned between the reportable segments and is eliminated from total segment revenue from services.

Americas Staffing represents the Company's branch-delivered staffing business in the U.S., Canada, Puerto Rico, Mexico and Brazil. International Staffing represents the EMEA region branch-delivered staffing business. Americas Staffing and International Staffing both deliver temporary staffing, as well as direct-hire placement services, in office-clerical, light industrial and professional and technical specialties within their geographic regions. Americas Staffing also includes educational staffing in the U.S.

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

Corporate expenses that directly support the operating units have been allocated to Americas Staffing, GTS and International Staffing based on work effort, volume or, in the absence of a readily available measurement process, proportionately based on gross profit realized. Unallocated corporate expenses include those related to incentive compensation, law and risk management, certain finance and accounting functions, executive management, corporate campus facilities, IT production support, certain legal costs and expenses related to corporate initiatives that do not benefit a specific operating segment.

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 (loss) before taxes and equity in net earnings (loss) of affiliate, for 2018, 2017 and 2016. Asset information by reportable segment is not presented, since the Company does not produce such information internally nor does it use such data to manage its business.

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

	2018	2017	2016
	(In millions of dollars)		
Revenue from Services:			
Americas Staffing	\$ 2,417.7	\$ 2,345.9	\$ 2,191.6
Global Talent Solutions	1,997.4	1,998.9	1,977.1
International Staffing	1,116.6	1,048.2	1,127.1
Less: Intersegment revenue	(17.8)	(18.6)	(19.0)
Consolidated Total	\$ 5,513.9	\$ 5,374.4	\$ 5,276.8

	2018	2017	2016
	(In millions of dollars)		
Earnings from Operations:			
Americas Staffing gross profit	\$ 441.3	\$ 429.1	\$ 398.2
Americas Staffing SG&A expenses	(364.2)	(346.4)	(329.4)
Americas Staffing Earnings from Operations	77.1	82.7	68.8
Global Talent Solutions gross profit	381.1	373.7	345.9
Global Talent Solutions SG&A expenses	(296.5)	(296.7)	(287.7)
Global Talent Solutions Earnings from Operations	84.6	77.0	58.2
International Staffing gross profit	152.3	153.7	166.4
International Staffing SG&A expenses	(132.3)	(131.6)	(146.9)
International Staffing Earnings from Operations	20.0	22.1	19.5
Less: Intersegment gross profit	(2.5)	(2.4)	(4.2)
Less: Intersegment SG&A expenses	2.5	2.4	4.2
Net Intersegment Activity	—	—	—
Corporate	(94.3)	(98.5)	(83.3)
Consolidated Total	87.4	83.3	63.2
Loss on investment in Persol Holdings	(96.2)	—	—
Gain on investment in PersolKelly Asia Pacific	—	—	87.2
Other expense, net	(0.6)	(1.6)	(0.7)
Earnings (loss) before taxes and equity in net earnings (loss) of affiliate	\$ (9.4)	\$ 81.7	\$ 149.7

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

A summary of revenue from services by geographic area for 2018, 2017 and 2016 follows:

	2018	2017	2016
	(In millions of dollars)		
Revenue From Services:			
United States	\$ 3,930.0	\$ 3,894.6	\$ 3,722.5
International	1,583.9	1,479.8	1,554.3
Total	\$ 5,513.9	\$ 5,374.4	\$ 5,276.8

Foreign revenue is based on the country in which the legal subsidiary is domiciled. No single foreign country's revenue represented more than 10% of the consolidated revenues of the Company. No single customer represented more than 10% of the consolidated revenues of the Company.

A summary of long-lived assets information by geographic area as of year-end 2018 and 2017 follows:

	2018	2017
	(In millions of dollars)	
Long-Lived Assets:		
United States	\$ 76.8	\$ 74.3
International	9.5	11.8
Total	\$ 86.3	\$ 86.1

Long-lived assets represent property and equipment. No single foreign country's long-lived assets represented more than 10% of the consolidated long-lived assets of the Company.

20. New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those annual periods, with early adoption permitted. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13 which eliminates, adds and modifies certain fair value measurement disclosures. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those annual periods, with early adoption permitted. We do not expect the adoption of this standard to have a material impact to our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 simplifying the accounting for nonemployee share-based payment awards by expanding the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new standard, most of the guidance on stock compensation payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The ASU is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02 allowing reclassification from accumulated other comprehensive income (loss) to retained earnings for the income tax effects resulting from the Act enacted by the U.S. federal government in December 2017. The new guidance eliminates the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. It also requires certain disclosures about stranded tax effects. ASU 2018-02 relates only to the reclassification of the income tax effects of the Act and does not change the underlying guidance requiring that the effect of a change in tax laws or rates be included in income from continuing operations. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. It should be

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

applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. Early adoption is permitted. We adopted this guidance during the second quarter of 2018. We elected not to reclassify the income tax effects of the Act from accumulated other comprehensive income (loss) to retained earnings.

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

In January 2017, the FASB issued ASU 2017-04 simplifying the accounting for goodwill impairment for all entities. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). The ASU is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We elected to early adopt ASU 2017-04 as of year-end 2018 and the adoption of this ASU did not have an impact on our goodwill impairment testing process or our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 amending the presentation of restricted cash within the statement of cash flows. The new guidance requires that restricted cash be included within cash and cash equivalents on the statement of cash flows. The ASU was effective retrospectively for reporting periods beginning after December 15, 2017, with early adoption permitted. We adopted this guidance effective January 1, 2018. See the consolidated statement of cash flows for the impact of this standard.

In August 2016, the FASB issued ASU 2016-15 clarifying how entities should classify certain cash receipts and payments on the statement of cash flows. The new guidance addresses classification of cash flows related to the following transactions: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies; 6) distributions received from equity method investees; and 7) beneficial interests in securitization transactions. ASU 2016-15 also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. This ASU was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 and required retrospective application. Early adoption was permitted. We adopted this guidance effective January 1, 2018 and the impact related to this implementation was immaterial.

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

In February 2016, the FASB issued ASU 2016-02 amending the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability will initially be measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S. GAAP, the presentation of expenses and cash flows will depend primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization's leasing activities. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and requires modified retrospective application. In July 2018, the FASB issued ASU 2018-11, which provided entities with an additional optional transition method to adopt the new lease standard at the adoption date, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption. We will elect this transition method at the adoption date.

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

In addition, we will elect the package of practical expedients permitted under the transition guidance, which allows us to carry forward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We will also elect to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of earnings on a straight-line basis over the lease term. We estimate approximately \$75 million would be recognized as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of December 31, 2018. Other than disclosed, we do not expect the new standard to have a material impact on our remaining consolidated financial statements.

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 was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption was only permitted for the financial liability provision. We adopted this guidance effective January 1, 2018. See Investment in Persol Holdings footnote for the impact on the financial statements.

In May 2014, the FASB issued new revenue recognition guidance under ASU 2014-09 that superseded the existing revenue recognition guidance under U.S. GAAP. The new standard focused on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of the new standard was 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 was effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2017. Since the issuance of the original standard, the FASB issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12); and 5) technical corrections and improvements (ASU 2016-20). We adopted this guidance with the modified retrospective approach effective January 1, 2018. See Revenue footnote for the impact on the financial statements.

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.

21. Related Party Transactions

Prior to October 9, 2018, Terence E. Adderley, the former Executive Chairman and Chairman of the Board of our board of directors, and certain trusts with respect to which he acts as trustee or co-trustee, controlled approximately 91.5% of the outstanding shares of Kelly Class B common stock, which is the only class of our common stock entitled to voting rights. Mr. Adderley received compensation relative to his services as executive chairmen of the Company prior to his retirement. There were no material transactions between the Company and Terence E. Adderley in 2018 or 2017.

Upon his death on October 9, 2018, the Terence E. Adderley Revocable Trust K (“Trust K”), now controls approximately 91.5% of the outstanding shares of Kelly Class B common stock. There were no material transactions between the Company and Trust K or its trustees in 2018 or 2017.

See Investment in PersolKelly Asia Pacific footnote for a description of related party activity with PersolKelly Asia Pacific.

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

22. Subsequent Events

On January 2, 2019, the Company acquired 100% of the stock of Global Technology Associates, LLC (“GTA”) for \$34.0 million of cash, subject to working capital adjustments, per an agreement dated December 24, 2018. GTA is a leading provider of engineering, technology and business consulting solutions in the telecommunications industry. The Company incurred \$0.4 million of related acquisition costs in 2018, which are included in other expense, net in the consolidated statements of earnings.

On January 2, 2019, the Company acquired 100% of the stock of NextGen Global Resources LLC (“NextGen”) for \$51.0 million of cash, subject to working capital adjustments per an agreement dated January 2, 2019. NextGen is a leading provider of telecommunications, wireless and connected technology staffing solutions. The Company incurred \$0.2 million of related acquisition costs in 2018, which are included in other expense, net in the consolidated statements of earnings.

The Company acquired GTA and NextGen to expand our engineering solutions portfolio and positions the Company as one of the leading engineering workforce solutions companies to the 5G telecommunications market. The initial accounting for both of these business combinations is incomplete at the time of this filing due to the limited amount of time since the acquisition date and the ongoing status of the valuations. Therefore, it is impracticable for the Company to provide the major classes of assets acquired and liabilities and contingent liabilities assumed or pro forma revenue and earnings.

23. Selected Quarterly Financial Data (unaudited)

	Fiscal Year 2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(In millions of dollars except per share data)				
Revenue from services	\$ 1,369.9	\$ 1,386.9	\$ 1,342.4	\$ 1,414.7	\$ 5,513.9
Gross profit	238.2	240.5	239.1	254.4	972.2
SG&A expenses	226.2	220.1	217.2	221.3	884.8
Gain (loss) on investment in Persol Holdings	23.7	(52.5)	15.8	(83.2)	(96.2)
Net earnings (loss)	29.1	(15.4)	33.1	(23.9)	22.9
Basic earnings (loss) per share ⁽¹⁾	0.74	(0.40)	0.84	(0.62)	0.59
Diluted earnings (loss) per share ⁽¹⁾	0.74	(0.40)	0.84	(0.62)	0.58
Dividends per share	0.075	0.075	0.075	0.075	0.30

	Fiscal Year 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(In millions of dollars except per share data)				
Revenue from services	\$ 1,289.7	\$ 1,333.6	\$ 1,328.8	\$ 1,422.3	\$ 5,374.4
Gross profit	231.6	228.8	230.7	263.0	954.1
SG&A expenses ⁽²⁾	215.2	208.5	212.5	234.6	870.8
Restructuring charges included in SG&A expenses	2.4	—	—	—	2.4
Net earnings	12.2	18.7	23.0	17.7	71.6
Basic earnings per share ⁽¹⁾	0.31	0.48	0.59	0.46	1.84
Diluted earnings per share ⁽¹⁾	0.31	0.47	0.58	0.45	1.81
Dividends per share	0.075	0.075	0.075	0.075	0.30

(1) Earnings per share amounts for each quarter are required to be computed independently and may not equal the amounts computed for the total year.

(2) SG&A expenses in the third quarter and full year of 2017 includes a \$2.8 million and \$1.4 million, respectively, benefit resulting from an out-of-period correction of expenses that were overstated in prior periods.

KELLY SERVICES, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION RESERVES
(In millions of dollars)

Description	Balance at beginning of year	Additions		Currency exchange effects	Deductions from reserves	Balance at end of year
		Charged to costs and expenses	Charged to other accounts			
<u>Fiscal year ended December 30, 2018</u>						
Reserve deducted in the balance sheet from the assets to which it applies -						
Allowance for doubtful accounts	\$ 12.9	3.5	(0.5) ⁽¹⁾	(0.4)	(2.3)	\$ 13.2
Deferred tax assets valuation allowance	\$ 34.6	2.6	—	(1.8)	(7.6)	\$ 27.8
<u>Fiscal year ended December 31, 2017</u>						
Reserve deducted in the balance sheet from the assets to which it applies -						
Allowance for doubtful accounts	\$ 12.5	5.3	0.3 ⁽¹⁾	0.6	(5.8)	\$ 12.9
Deferred tax assets valuation allowance	\$ 42.1	1.7	—	3.3	(12.5)	\$ 34.6
<u>Fiscal year ended January 1, 2017</u>						
Reserve deducted in the balance sheet from the assets to which it applies -						
Allowance for doubtful accounts	\$ 10.5	10.2	0.8 ⁽¹⁾	(0.8)	(8.2)	\$ 12.5
Deferred tax assets valuation allowance	\$ 50.9	2.4	—	(2.9)	(8.3)	\$ 42.1

⁽¹⁾ Adjustment to provision for sales allowances charged to revenue from services.

**INDEX TO EXHIBITS
REQUIRED BY ITEM 601
REGULATIONS S-K**

<u>Exhibit No.</u>	<u>Description</u>
<u>3.1</u>	Amended and Restated Certificate of Incorporation, effective May 9, 2018 (Reference is made to Exhibit 3.1 to the Form 8-K filed with the Commission on May 11, 2018, which is incorporated herein by reference).
<u>3.2</u>	By-laws, effective November 6, 2018 (Reference is made to Exhibit 3.1 to the Form 8-K filed with the Commission on November 7, 2018, which is incorporated herein by reference).
<u>10.1*</u>	Kelly Services, Inc. Short-Term Incentive Plan, as amended and restated February 12, 2015 (Reference is made to Exhibit 10.1 to the Form 10-Q filed with the Commission on August 5, 2015, which is incorporated herein by reference).
<u>10.2*</u>	Kelly Services, Inc. Equity Incentive Plan (Reference is made to Exhibit 10.1 to the Form 8-K filed with the Commission on May 12, 2017, which is incorporated herein by reference).
<u>10.3*</u>	Kelly Services, Inc. Senior Executive Severance Plan (Reference is made to Exhibit 10.3 to the Form 10-Q filed with the Commission on May 11, 2017, which is incorporated herein by reference).
<u>10.4*</u>	Kelly Services, Inc. Non-Employee Directors Deferred Compensation Plan (Reference is made to Exhibit 10.4 to the Form 10-K filed with the Commission on February 20, 2018, which is incorporated herein by reference).
<u>10.6</u>	Second Amended and Restated Credit Agreement, dated December 5, 2016 (Reference is made to Exhibit 10.6 to the Form 8-K filed with the Commission on December 9, 2016, which is incorporated herein by reference).
<u>10.12*</u>	Kelly Services, Inc. 2008 Management Retirement Plan – Post 2004 (Reference is made to Exhibit 10.12 to the Form 10-Q filed with the Commission on November 7, 2012, which is incorporated herein by reference).
<u>10.13*</u>	First Amendment to the Kelly Services, Inc. 2008 Management Retirement Plan (Reference is made to Exhibit 10.13 to the Form 10-Q filed with the Commission on November 7, 2012, which is incorporated herein by reference).
<u>10.14</u>	Pledge and Security Agreement, dated September 28, 2009 (Reference is made to Exhibit 10.14 to the Form 8-K filed with the Commission on September 29, 2009, which is incorporated herein by reference).
<u>10.15</u>	First Amended and Restated Purchase Agreement, dated December 5, 2016 (Reference is made to Exhibit 10.15 to the Form 8-K filed with the Commission on December 9, 2016, which is incorporated herein by reference).
<u>10.21*</u>	Amendment to Kelly Services, Inc. 2008 Management Retirement Plan. (Reference is made to Exhibit 10.21 to the Form 8-K filed with the commission on August 11, 2014, which is incorporated herein by reference.)
<u>14</u>	Code of Business Conduct and Ethics, adopted August 6, 2018. (Reference is made to Exhibit 14 to the Form 10-Q filed with the commission on November 7, 2018, which is incorporated herein by reference.)
<u>21</u>	Subsidiaries of Registrant.

**INDEX TO EXHIBITS
REQUIRED BY ITEM 601
REGULATION S-K (continued)**

<u>Exhibit No.</u>	<u>Description</u>
23	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney.
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates a management contract or compensatory plan or arrangement.

SUBSIDIARIES OF REGISTRANT

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Services (Canada), Ltd.	Canada	Kelly Services
Kelly Global Business Services, LLC	Michigan	Kelly Services
Kelly Services Global, LLC	Michigan	Kelly Services
Kelly Services USA, LLC	Michigan	Kelly Services
Teachers On Call, Inc. (a subsidiary of Kelly Services USA, LLC)	Minnesota	Teachers On Call
Kelly Properties, LLC	Delaware	Kelly Properties
Kelly Innovation Fund, LLC. (a subsidiary of Kelly Properties, LLC)	Michigan	Kelly Innovation Fund
Kelly Receivables Funding, LLC	Delaware	Kelly Receivables Funding
Kelly Outsourcing and Consulting Group Australia, Ltd.	Delaware	Kelly Services
Kelly Services of Denmark, Inc.	Delaware	Kelly Services
Kelly Services (Ireland), Ltd. (a subsidiary of Kelly Properties, LLC)	Delaware	Kelly Services
Kelly Services Management S.a.r.l. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Switzerland	Kelly Services
Kelly Services (Suisse), SA (a subsidiary of Kelly Services Management S.a.r.l.)	Switzerland	Kelly Services
Kelly Services Outsourcing and Consulting Group Sarl (a subsidiary of Kelly Services (Suisse), SA)	Switzerland	Kelly Services
Kelly Services (UK) Ltd. (a subsidiary of Kelly Services Management S.a.r.l.)	United Kingdom	Kelly Services, Ltd.
Kelly Payroll Services Limited (a subsidiary of Kelly Services (UK) Ltd.)	United Kingdom	Kelly Services, Ltd.
Toner Graham Limited (a subsidiary of Kelly Services (UK) Ltd.)	United Kingdom	Toner Graham
Kelly Services (Nederland), B.V.	Netherlands	Kelly Services

SUBSIDIARIES OF REGISTRANT (continued)

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Administratiekantoor, B.V. (a subsidiary of Kelly Services (Nederland) B.V.)	Netherlands	Kelly Services
Kelly Managed Services (Nederland) B.V. (a subsidiary of Kelly Services (Nederland) B.V.)	Netherlands	Kelly Services
Kelly Services Norge AS (a subsidiary of Kelly Services Management S.a.r.l.)	Norway	Kelly Services
Kelly Services Management AS (a subsidiary of Kelly Services Norge AS)	Norway	Kelly Services
Kelly Services Mexico, S.A. de C. V. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Mexico	Kelly Services
Opciones De Servicio En Mexico, S.A. de C.V. (a subsidiary of Kelly Services Mexico, S.A. de C.V. and Kelly Properties, LLC)	Mexico	Kelly Services
QSM, S.A. de C.V. (a subsidiary of Kelly Services Mexico, S.A. de C.V. and Kelly Properties, LLC)	Mexico	Kelly Services
Kelly Services France, S.A.S. (a subsidiary of Kelly Services Management S.a.r.l and Kelly Services (Suisse) SA)	France	Kelly Services
Kelly Services, S.A.S. (a subsidiary of Kelly Services France, S.A.S.)	France	Kelly Services
Kelly OCG (a subsidiary of Kelly Services France, S.A.S.)	France	Kelly Services
Kelly Services Luxembourg, S.a.r.l.	Luxembourg	Kelly Services
Kelly Outsourcing & Consulting Group, S.a.r.l. (a subsidiary of Kelly Services Luxembourg, S.a.r.l.)	Luxembourg	Kelly Services
Kelly Services S.p.A. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Italy	Kelly Services
Kelly Management Services, S.r.l. (a subsidiary of Kelly Services S.p.A.)	Italy	Kelly Management Services

SUBSIDIARIES OF REGISTRANT (continued)

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
LLC Kelly Services CIS (a subsidiary of Kelly Services Management S.a.r.l)	Russia	Kelly Services
LLC Kelly Services IT solutions (a subsidiary of LLC Kelly Services CIS and Kelly Services Management S.a.r.l)	Russia	Kelly Services
access KellyOCG GmbH (a subsidiary of Kelly Services Management S.a.r.l)	Germany	access
Kelly Services GmbH (a subsidiary of access KellyOCG GmbH)	Germany	Kelly Services
Kelly Outsourcing and Consulting Group (Austria) GmbH (a subsidiary of access KellyOCG GmbH)	Austria	access
Kelly Services Interim (Belgium) SPRL (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Belgium	Kelly Services
Kelly Services Outsourcing and Consulting Group SA/ NV (a subsidiary of Kelly Services Interim (Belgium) SPRL and Kelly Properties, LLC)	Belgium	Kelly Services
Kelly Services – Empresa De Trabalho Temporario, Unipessoal, Lda. (a subsidiary of Kelly Services Management S.a.r.l.)	Portugal	Kelly Services
Kelly Services – Gestao De Processos, Lda. (a subsidiary of Kelly Services – Empresa De Trabalho Temporario, Unipessoal, Lda. and Kelly Services Management S.a.r.l.)	Portugal	Kelly Services
Kelly Services Healthcare Unipessoal, Lda. (a subsidiary of Kelly Services – Gestao De Processos, Lda.)	Portugal	Kelly Services

SUBSIDIARIES OF REGISTRANT (continued)

Kelly Services, Inc.

Subsidiary	State/Jurisdiction of Incorporation	Business Name
Kelly Services Hungary Staffing, LLC (a subsidiary of Kelly Services Management S.a.r.l.)	Hungary	Kelly Services
Kelly Services Poland Sp.zo.o.	Poland	Talents
Kelly OCG Singapore PTE. LTD	Singapore	Kelly OCG Singapore
Kelly OCG Malaysia Sdn. Bhd. (a subsidiary of Kelly OCG Singapore Pte Ltd)	Malaysia	Kelly Services
Agensi Pekerjaan Kelly OCG Sdn. Bhd. (a subsidiary of Kelly OCG Malaysia Sdn. Bhd.)	Malaysia	Kelly Services
Kelly Outsourcing and Consulting Group India Pte. Ltd. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	India	Kelly Services
Kelly Services Japan, Inc.	Japan	Kelly Services
Kelly Investment and Consulting (Shanghai) Co., Ltd.	China	Kelly Investment and Consulting
Kelly Services Brasil Investimentos E Participacoes Ltda. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Brazil	Kelly Services
Kelly Services Brasil Investimentos E Participacoes II Ltda. (a subsidiary of Kelly Services, Inc. and Kelly Properties, LLC)	Brazil	Kelly Services
Kelly Services Do Brasil Recursos Humanos Ltda (a subsidiary of Kelly Services Brasil Investimentos E Participacoes II Ltda. and Kelly Services Brasil Investimentos E Participacoes Ltda.)	Brazil	Kelly Services
Kelly Services Recursos Humanos Ltda. (a subsidiary of Kelly Services Do Brasil Recursos Humanos Ltda and Kelly Services Brasil Investimentos E Participacoes II Ltda.)	Brazil	Kelly Services

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3/A (No. 333-216428) and Form S-8 (Nos. 333-218039, 333-114837, 333-125091, 333-166798 and 333-201165) of Kelly Services, Inc. of our report dated February 14, 2019 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan

February 14, 2019

POWER OF ATTORNEY

Each of the undersigned directors of Kelly Services, Inc. does hereby appoint Olivier G. Thirot and Hannah S. Lim-Johnson, signing singly, his or her true and lawful attorneys, to execute for and on behalf of the undersigned Form 10-K Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ending December 30, 2018, to be filed with the Securities and Exchange Commission in Washington, D.C. under the provisions of the Securities Exchange Act of 1934, as amended, and any and all amendments to said Form 10-K whether said amendments add to, delete from, or otherwise alter the Form 10-K, or add to or withdraw any exhibit or exhibits, schedule or schedules to be filed therewith, and any and all instruments necessary or incidental in connection therewith, hereby granting unto said attorneys and each of them full power and authority to do and perform in the name and on behalf of each of the undersigned, and in any and all capacities, every act and thing whatsoever required or necessary to be done in the exercise of any of the rights and powers herein granted, as fully and to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and approving the acts of said attorneys and each of them.

IN WITNESS WHEREOF the undersigned have caused this Power of Attorney to be executed as of this 14th day of February, 2019.

/s/ Donald R. Parfet

Donald R. Parfet

/s/ George S. Corona

George S. Corona

/s/ Carol M. Adderley

Carol M. Adderley

/s/ Gerald S. Adolph

Gerald S. Adolph

/s/ Robert S. Cubbin

Robert S. Cubbin

/s/ Jane E. Dutton

Jane E. Dutton

/s/ Terrence B. Larkin

Terrence B. Larkin

/s/ Leslie A. Murphy

Leslie A. Murphy

/s/ Hirotoshi Takahashi

Hirotoshi Takahashi

CERTIFICATIONS

I, George S. Corona, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 14, 2019

/s/ George S. Corona
George S. Corona

President and
Chief Executive Officer

CERTIFICATIONS

I, Olivier G. Thiot, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 14, 2019

/s/ Olivier G. Thiot
Olivier G. Thiot

Executive Vice President and
Chief Financial Officer

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

In connection with the Annual Report of Kelly Services, Inc. (the “Company”) on Form 10-K for the period ended December 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, George S. Corona, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 14, 2019

/s/ George S. Corona
George S. Corona

President and
Chief Executive Officer

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

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

In connection with the Annual Report of Kelly Services, Inc. (the “Company”) on Form 10-K for the period ended December 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Olivier G. Thiot, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 14, 2019

/s/ Olivier G. Thiot
Olivier G. Thiot

Executive 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Donald R. Parfet
*Chairman of the Board
Managing Director
Apjohn Group, LLC*

George S. Corona
*President and
Chief Executive Officer*

Carol M. Adderley
*Writer and Researcher
in the Humanities*

Gerald S. Adolph
*Retired Senior Partner
Strategy & M&A
Booz & Co.*

Robert S. Cubbin
*Retired President and Chief
Executive Officer
Meadowbrook Insurance Group, Inc.*

Jane E. Dutton
*Robert L. Kahn Distinguished
University Professor Emeritus
of Business Administration and
Psychology
The University of Michigan
Business School*

Terrence B. Larkin
*Executive Vice President,
Business Development,
General Counsel and
Corporate Secretary
Lear Corporation*

Leslie A. Murphy, CPA
*President and
Chief Executive Officer
Murphy Consulting, Inc.*

Hirotohi Takahashi
*Director, Deputy Vice President
and Chief Operating Officer
PERSOL HOLDINGS CO., LTD.*

EXECUTIVE OFFICERS

George S. Corona
*President and
Chief Executive Officer*

Teresa S. Carroll
*Executive Vice President
and President, Global Talent
Solutions, and General Manager,
Sales, Marketing & Human
Resources*

Peter W. Quigley
*Executive Vice President
and President, Global Staffing,
and General Manager, IT,
Global Business Services &
Global Service*

Olivier G. Thiroit
*Executive Vice President
and Chief Financial Officer*

Hannah S. Lim-Johnson
*Senior Vice President
and Chief Legal Officer*

CORPORATE SUSTAINABILITY

Since our founding in 1946, Kelly has embodied the true spirit of corporate sustainability. We are proud to uphold that commitment as a cornerstone of who we are as an organization. Kelly's corporate sustainability commitments are centered on six pillars of development:

Employees and People – We take seriously our responsibilities to protect, support, and prepare workers for successful careers, and to advocate on their behalf.

Ethics – We are committed to doing the right thing, conducting ourselves in a legal, ethical, and trustworthy manner.

Engagement – We partner with organizations in the communities where we live and work to improve lives and society as a whole.

Occupational Health, Safety, and Environment – We recognize a shared responsibility to protect our planet and generate environments with safe working conditions.

Supply Chain and Customer Relations – We value our customer and supplier relationships, and work toward building strong relationships and advocates for life.

Communication, Evaluation, and Reporting – We recognize that communicating and reporting a company's strategy and performance helps demonstrate openness and transparency.

We believe Kelly has a responsibility to do the right thing and we welcome the opportunity to make a difference. For more information, visit our website, kellyservices.com, to read our corporate sustainability report and policy.

CORPORATE HEADQUARTERS

999 West Big Beaver Road
Troy, Michigan 48084-4716
248.362.4444
kellyservices.com

TRANSFER AGENT AND REGISTRAR

Computershare
P.O. Box 505000
Louisville, KY 40233

Overnight correspondence should be sent to:

Computershare
462 South 4th Street
Louisville, KY 40202

Toll Free (U.S. and Canada) **866.249.2607**

TDD for Hearing Impaired **800.231.5469**

Foreign TDD for Hearing Impaired **201.680.6610**

Foreign Stockholders **201.680.6578**

Website: computershare.com/investor

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
500 Woodward Avenue
Detroit, Michigan 48226

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on May 8, 2019, at 11:00 a.m., Eastern Daylight Time, at the Corporate Headquarters of the Company.

DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

Registered stockholders of Kelly's Class A common stock can purchase additional shares through the Direct Stock Purchase and Dividend Reinvestment Plan. For more information about the plan or to enroll, visit kellyservices.com.

ADDITIONAL INFORMATION

For more information, including financial documents such as annual reports, Form 10-Ks, and copies of the Company's Code of Business Conduct and Ethics, contact:

James M. Polehna
*Senior Vice President and Corporate Secretary
Kelly Services, Inc.*
999 West Big Beaver Road
Troy, Michigan 48084-4716
248.244.4586

STOCK LISTINGS

Kelly Services Class A and Class B common stock trade on the NASDAQ Global Select MarketSM under the symbols: KELYA and KELYB.



Recyclable

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999 West Big Beaver Road
Troy, Michigan 48084-4716
248.362.4444
kellyservices.com

