

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

FORM 10-Q

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

For the quarterly period ended June 29, 1997

OR

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

Commission File Number 0-1088

KELLY SERVICES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

38-1510762

(State or other jurisdiction
of incorporation or organization)

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

999 WEST BIG BEAVER ROAD, TROY, MICHIGAN 48084

(Address of principal executive offices)
(Zip Code)

(248) 362-4444

(Registrant's telephone number, including area code)

No Change

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

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

At August 1, 1997, 34,526,630 shares of Class A and 3,573,052 shares of Class B common stock of the Registrant were outstanding.

KELLY SERVICES, INC. AND SUBSIDIARIES

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KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF EARNINGS
(UNAUDITED)

(In thousands of dollars except per share items)

	13 Weeks Ended		26 Weeks Ended	
	June 29, 1997	June 30, 1996	June 29, 1997	June 30, 1996
Sales of services	\$959,726	\$804,262	\$1,840,572	\$1,538,193
Cost of services	789,618	652,007	1,514,126	1,248,252
Gross profit	170,108	152,255	326,446	289,941
Selling, general and administrative expenses	137,636	123,778	269,855	241,080
Earnings from operations	32,472	28,477	56,591	48,861
Interest income, net	486	661	490	1,770
Earnings before income taxes	32,958	29,138	57,081	50,631
Income taxes:				
Federal	11,095	9,270	19,230	16,055
State and other	2,420	2,420	4,180	4,225
Total income taxes	13,515	11,690	23,410	20,280
Net earnings	\$ 19,443	\$ 17,448	\$ 33,671	\$ 30,351
Earnings per share	\$.51	\$.46	\$.88	\$.80
Dividends per share	\$.22	\$.21	\$.43	\$.41
Average shares outstanding (thousands)	38,078	38,041	38,069	38,029

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF JUNE 29, 1997 AND DECEMBER 29, 1996
(UNAUDITED)
(In thousands of dollars)

ASSETS	1997	1996

CURRENT ASSETS:		
Cash and equivalents	\$ 66,002	\$ 33,408
Short-term investments	38,442	28,035
Accounts receivable, less allowances of \$11,880 and \$8,320, respectively	578,042	554,025
Prepaid expenses and other current assets	45,074	43,118
	-----	-----
Total current assets	727,560	658,586
PROPERTY AND EQUIPMENT:		
Land and buildings	44,068	43,748
Equipment, furniture and leasehold improvements	132,943	118,737
Accumulated depreciation	(73,645)	(64,763)
	-----	-----
Total property and equipment	103,366	97,722
INTANGIBLES AND OTHER ASSETS	80,091	82,571
	-----	-----
TOTAL ASSETS	\$911,017	\$838,879
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Short-term borrowings	\$ 46,260	\$ 41,616
Accounts payable	58,415	48,111
Payroll and related taxes	195,697	151,769
Accrued insurance	59,046	53,119
Income and other taxes	22,763	27,365
	-----	-----
Total current liabilities	382,181	321,980
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,019 shares in 1997 and 2,057 shares in 1996, respectively, at cost	(6,104)	(6,197)
Paid-in capital	9,080	8,265
Earnings invested in the business	485,744	474,715
	-----	-----
Total stockholders' equity	528,836	516,899
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$911,017	\$838,879
	=====	=====

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands of dollars)

	13 Weeks Ended		26 Weeks Ended	
	June 29, 1997	June 30, 1996	June 29, 1997	June 30, 1996
Capital Stock				
Class A common stock				
Balance at beginning of period	\$ 36,531	\$ 36,512	\$ 36,527	\$ 36,512
Conversions from Class B	6	15	10	15
Balance at end of period	36,537	36,527	36,537	36,527
Class B common stock				
Balance at beginning of period	3,585	3,604	3,589	3,604
Conversions to Class A	(6)	(15)	(10)	(15)
Balance at end of period	3,579	3,589	3,579	3,589
Treasury Stock				
Balance at beginning of period	(6,204)	(6,314)	(6,197)	(6,327)
Exercise of stock options	41	50	32	59
Restricted stock awards	59	59	61	63
Balance at end of period	(6,104)	(6,205)	(6,104)	(6,205)
Paid-in Capital				
Balance at beginning of period	8,365	7,324	8,265	7,215
Exercise of stock options	322	390	406	462
Restricted stock awards	393	480	409	517
Balance at end of period	9,080	8,194	9,080	8,194
Earnings Invested in the Business				
Balance at beginning of period	475,818	439,103	474,715	435,100
Net earnings	19,443	17,448	33,671	30,351
Cash dividends	(8,379)	(7,991)	(16,372)	(15,594)
Equity adjustment for foreign currency translation (cumulative charges of \$5,964 and \$505 in 1997 and 1996, respectively)	(1,138)	(1,329)	(6,270)	(2,626)
Balance at end of period	485,744	447,231	485,744	447,231
Stockholders' Equity at end of period	\$528,836	\$489,336	\$528,836	\$489,336

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(UNAUDITED)

FOR THE 26 WEEKS ENDED JUNE 29, 1997 AND JUNE 30, 1996

(In thousands of dollars)

	1997	1996
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 33,671	\$ 30,351
Noncash adjustments:		
Depreciation and amortization	12,849	12,911
Changes in certain working capital components	26,516	(77,886)
	-----	-----
Net cash from operating activities	73,036	(34,624)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(17,903)	(10,053)
Proceeds from sales and maturities of short-term investments	967,617	561,375
Purchases of short-term investments	(978,024)	(549,093)
Increase in intangibles and other assets	(1,312)	(6,310)
	-----	-----
Net cash from investing activities	(29,622)	(4,081)
	-----	-----
Cash flows from financing activities:		
Increase in short-term borrowings	4,644	16,665
Dividend payments	(16,372)	(15,594)
Exercise of stock options and restricted stock awards	908	1,101
	-----	-----
Net cash from financing activities	(10,820)	2,172
	-----	-----
Net change in cash and equivalents	32,594	(36,533)
Cash and equivalents at beginning of period	33,408	52,811
	-----	-----
Cash and equivalents at end of period	\$ 66,002	\$ 16,278
	=====	=====

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION

Results of Operations:

Second Quarter

Sales of services in the second quarter of 1997 were \$959,726,000, an increase of 19.3% from the same period in 1996. Sales growth was generally strong in both domestic and foreign operations.

Cost of services, consisting of payroll and related tax and benefit costs of employees assigned to customers, increased 21.1% in the second quarter as compared to the same period in 1996. Direct wage costs have increased from 1996 at a rate somewhat higher than the general inflation rate, due to strong worldwide demand for labor.

Gross profit of \$170,108,000 was 11.7% higher than the second quarter of 1996, and gross profit as a percentage of sales declined from 18.9% in 1996 to 17.7% in 1997. The growth of sales with our largest customers where contracts require special pricing and additional implementation costs, the upward pressure on wage costs noted above and growth in the staff leasing business with its inherently lower margins all had the effect of reducing the consolidated gross profit rate.

Selling, general and administrative expenses were \$137,636,000 in the second quarter, an increase of 11.2% over the same period in 1996. Expenses averaged 14.3% of sales as compared to 15.4% in last year's second quarter. The rate of growth of these expenses in relationship to the sales increases reflects the Company's emphasis on expense control.

Earnings from operations of \$32,472,000 were 14.0% greater than the second quarter of 1996. Earnings before income taxes were \$32,958,000, an increase of 13.1%, compared to pretax earnings of \$29,138,000 for the same period in 1996. The pretax margin was 3.4%, a .2 percentage point decrease from the second quarter of 1996. The decrease was due to the lower gross profit and expense ratios and, to a lesser extent, lower net interest income.

Income taxes were 41.0% of pretax income. This was .9 percentage point over the applicable tax rate for the second quarter of 1996 due to reduced tax-exempt income and earnings growth in our foreign operating units where tax rates are higher. (The income tax rate for the year 1996 averaged 40.6%.)

Net earnings were \$19,443,000 in the second quarter of 1997, an increase of 11.4% over the second quarter of 1996. Earnings per share were \$.51 compared to \$.46 in the same period last year. Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share," was issued in February 1997. Adoption of SFAS 128, effective for periods ending after December 15, 1997, is not expected to have a material effect on reported earnings per share.

Year-to-Date

Sales of services totaled \$1,840,572,000 during the first six months of 1997, an increase of 19.7% over 1996. This increase reflects continued growth in the volume of domestic and international sales.

Cost of services of \$1,514,126,000 was 21.3% higher than last year, reflecting domestic and international volume growth and increases in payroll costs due to strong demand for labor worldwide.

Gross profit increased 12.6% in 1997 due to increased sales, but at lower gross profit rates. The gross profit rate was 17.7% for the first six months of 1997 compared to 18.8% for 1996. This decline reflects growth with our very large customers and in the staff leasing business.

Selling, general and administrative expenses of \$269,855,000 were 11.9% higher than last year. The spending rate was 14.7% of sales, 1.0 percentage point below last year's rate. Expenses continue to be closely monitored in both U.S. and overseas markets.

Earnings before taxes were \$57,081,000, an increase of 12.7% over 1996. These earnings averaged a pretax margin of 3.1%, or .2 percentage point decrease from 1996. The decrease was due to lower gross profit and expense ratios and lower net interest income. Income taxes were 41.0% of pretax earnings and were .9 percentage point higher than last year's first half income tax rate. Reduced tax-exempt income and earnings growth in our foreign operations where tax rates are higher account for this change.

Net earnings were \$33,671,000, or 10.9% higher than the first six months of 1996. Earnings per share were \$.88 compared to \$.80 last year.

Financial Condition

Assets totaled \$911,017,000 at June 29, 1997, an increase of 8.6% over the \$838,879,000 at December 29, 1996. Working capital increased \$8,773,000 during the six-month period. The current ratio was 1.9 at June 29, 1997, a decline of .1 percentage point since December 29, 1996.

During the first half of 1997, the Company generated cash from operating activities totaling \$73,036,000 compared to a decline in cash from operating activities of \$34,624,000 in the first half of 1996. In 1997, increased net earnings and increases in current liability balances, offset by moderate growth in accounts receivable, contributed to the increase in cash. In 1996, an increase in accounts receivable was a principal component in the decline in cash from operating activities. Capital expenditures were principally for expanding and improving the worldwide branch network.

The quarterly dividend rate applicable to Class A and Class B shares outstanding was \$.22 per share in the second quarter of 1997. This compares to a dividend rate of \$.21 per share in the second quarter of 1996.

The Company's financial position continues to be strong. This strength will allow it to continue to aggressively pursue growth opportunities, while supporting current operations.

Companies for which this report is filed are: Kelly Services, Inc. and its subsidiaries, Kelly Assisted Living Services, Inc., Kelly Properties, Inc., Kelly Professional and Technical Services, Inc., Kelly Services (Canada), Ltd., Les Services Kelly (Quebec) Inc., Societe Services Kelly, Kelly Professional Services (France), Inc., Kelly Services (UK), Ltd., Kelly Services (Ireland), Ltd., Kelly Services (Australia), Ltd., Kelly Services (New Zealand), Ltd., Kelly Services (Nederland), B.V., Kelly Services of Denmark, Inc., OK Personnel Service Holding SA, Kelly de Mexico, S.A. de C.V., Kelly Services Norge A.S., KSI Acquisition Corp., Kelly Staff Leasing, Inc., The Wallace Law Registry, Inc., Kelly Services France S.A., Bourse Du Travail Temporaire 2000, Kelly Formation S.A.R.L., Kelly Services Luxembourg S.A.R.L., Kelly Services Italia S.R.L., Kelly Services Iberia Holding Company, S.L., Kelly Services Empleo E.T.T., S.L., Kelly Services Seleccion y Formacion, S.L. and Kelly Services CIS, Inc.

The information furnished reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the period in this filing.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

- (a) The annual meeting of stockholders of registrant was held May 20, 1997.
- (b) The nominees for director, as listed in the Company's proxy statement dated April 25, 1997, were elected. The directors whose terms of office continued after the meeting are also listed in the proxy statement.
- (c) A brief description and the results of the matters voted upon at the meeting follow.
 - (1) Election of the following directors:

	Shares Voted "For"	Shares Voted "Abstain"
	-----	-----
M. A. Fay	3,501,098	2,585
C. V. Fricke	3,501,129	2,554
V. G. Istock	3,501,129	2,554

- (2) Ratification of the selection of Price Waterhouse LLP as the Company's independent auditors:

Shares voted "For"	3,502,434
Shares voted "Withhold"	1,249

Item 6. Exhibits and Reports on Form 8-K.

- (a) See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 12 of this filing.
- (b) No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURE

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

KELLY SERVICES, INC.

Date: August 12, 1997

/s/ P. K. Geiger
P. K. Geiger

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

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

Exhibit No. -----	Description -----	Document -----
4	Rights of security holders are defined in Articles Fourth, Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth and Fifteenth of the Certificate of Incorporation. (Reference is made to Exhibit 3.2 to the Form 10-Q for the quarterly period ended June 30, 1996, filed with the Commission in August, 1996, which is incorporated herein by reference.)	
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND STATEMENT OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS		
	DEC-28-1997	
	JUN-29-1997	
		66,002
		38,442
		589,922
		11,880
		0
	727,560	
		177,011
		73,645
		911,017
	382,181	
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	0	
		0
		40,116
		488,720
911,017		
		0
	1,840,572	
		0
	1,514,126	
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		57,081
		23,410
	33,671	
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		0
		33,671
		.88
		0