

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 July 2, 1995

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)

(810) 362-4444

(Registrant's telephone number, including area code)

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

At August 7, 1995, 34,398,359 shares of Class A and 3,598,657 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	
	July 2, 1995	July 3, 1994	July 2, 1995	July 3, 1994
Sales of services	\$652,417	\$570,813	\$1,273,102	\$1,101,004
Cost of services	519,739	461,093	1,018,406	889,467
Gross profit	132,678	109,720	254,696	211,537
Selling, general and administrative expenses	107,789	88,111	212,094	176,535
Earnings from operations	24,889	21,609	42,602	35,002
Interest income	2,321	1,666	4,710	3,171
Earnings before income taxes	27,210	23,275	47,312	38,173
Income taxes:				
Federal	8,505	7,000	14,895	11,520
State and other	2,045	1,855	3,495	3,000
Total income taxes	10,550	8,855	18,390	14,520
Net earnings	\$ 16,660	\$ 14,420	\$ 28,922	\$ 23,653
Earnings per share	\$.44	\$.38	\$.76	\$.62
Dividends per share	\$.20	\$.18	\$.38	\$.34
Average shares outstanding (thousands)	37,987	37,955	37,977	37,951

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF JULY 2, 1995 AND JANUARY 1, 1995
(UNAUDITED)
(In thousands of dollars)

ASSETS	1995	1994
-----	-----	-----
CURRENT ASSETS:		
Cash and equivalents	\$ 50,963	\$ 49,207
Short-term investments	114,388	142,723
Accounts receivable, less allowances of \$8,065 and \$5,660, respectively	347,114	307,478
Prepaid expenses and other current assets	26,231	27,018
	-----	-----
Total current assets	538,696	526,426
PROPERTY AND EQUIPMENT:		
Land and buildings	35,026	34,044
Equipment, furniture and leasehold improvements	105,883	90,868
Accumulated depreciation	(64,639)	(54,731)
	-----	-----
Total property and equipment	76,270	70,181
INTANGIBLES AND OTHER ASSETS	61,539	45,491
	-----	-----
TOTAL ASSETS	\$676,505	\$642,098
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable	\$ 35,291	\$ 33,716
Payroll and related taxes	121,724	102,911
Accrued insurance	55,650	57,390
Income and other taxes	12,227	16,565
	-----	-----
Total current liabilities	224,892	210,582
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,121 shares in 1995 and 2,153 shares in 1994, respectively, at cost	(6,181)	(6,186)
Paid-in capital	6,638	5,868
Earnings invested in the business	411,040	391,718
	-----	-----
Total stockholders' equity	451,613	431,516
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$676,505	\$642,098
	=====	=====

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended		26 Weeks Ended	
	July 2, 1995	July 3, 1994	July 2, 1995	July 3, 1994
Capital Stock				
Class A common stock				
Balance at beginning of period	\$ 36,510	\$ 36,507	\$ 36,507	\$ 36,507
Conversions from Class B	1	--	4	--
Balance at end of period	36,511	36,507	36,511	36,507
Class B common stock				
Balance at beginning of period	3,606	3,609	3,609	3,609
Conversions to Class A	(1)	--	(4)	--
Balance at end of period	3,605	3,609	3,605	3,609
Treasury Stock				
Balance at beginning of period	(6,216)	(6,153)	(6,186)	(6,702)
Restricted stock awards	35	--	35	--
Exercise of stock options	--	15	(30)	35
Treasury stock issued for acquisition	--	--	--	529
Balance at end of period	(6,181)	(6,138)	(6,181)	(6,138)
Paid-in Capital				
Balance at beginning of period	6,210	5,628	5,868	679
Restricted stock awards	297	--	297	--
Exercise of stock options	131	108	473	254
Treasury stock issued for acquisition	--	--	--	4,803
Balance at end of period	6,638	5,736	6,638	5,736
Earnings Invested in the Business				
Balance at beginning of period	402,592	355,219	391,718	352,126
Net earnings	16,660	14,420	28,922	23,653
Cash dividends	(7,599)	(6,832)	(14,433)	(12,904)
Equity adjustment for foreign currency translation (cumulative credit of \$3,425 in 1995 and charge of \$4,512 in 1994)	(613)	2,069	4,833	2,001
Balance at end of period	411,040	364,876	411,040	364,876
Stockholders' Equity at end of period	\$451,613	\$404,590	\$451,613	\$404,590

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(UNAUDITED)

FOR THE 26 WEEKS ENDED JULY 2, 1995 AND JULY 3, 1994

(In thousands of dollars)

	1995	1994
	-----	-----
Cash flows from operating activities:		
Net earnings	\$28,922	\$23,653
Noncash adjustments:		
Depreciation	9,908	8,603
Changes in certain working capital components	(21,891)	(4,018)
Net cash from operating activities	16,939	28,238
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(15,260)	(7,759)
Short-term investments	28,335	201
Increase in intangibles and other assets	(14,600)	(1,294)
Net cash from investing activities	(1,525)	(8,852)
	-----	-----
Cash flows from financing activities:		
Dividend payments	(14,433)	(12,904)
Exercise of stock options and restricted stock awards	775	289
Net cash from financing activities	(13,658)	(12,615)
	-----	-----
Net change in cash and equivalents	1,756	6,771
Cash and equivalents at beginning of period	49,207	36,020
	-----	-----
Cash and equivalents at end of period	\$50,963	\$42,791
	=====	=====

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 1995 totaled \$652,417,000, an increase of 14.3% from the same period in 1994. Modest growth in domestic sales, at less than 10% over the same period in 1994, reflected slowed economic conditions in the United States economy and management's continued challenging of low yielding, higher risk light industrial business. International sales continued to grow at double digit rates and benefited from the inclusion of OK Personnel Service Holding SA in Switzerland, purchased in July, 1994.

Cost of services, consisting of payroll and related costs of employees assigned to customers, increased 12.7% in the second quarter as compared to the same period in 1994. Average hourly wages and related costs increased over 6.0% from 1994 due to inflation and a shift in business mix toward higher margin service lines.

Gross profit of \$132,678,000 was 20.9% higher than 1994 due to both increased volume and gross profit rates which, combined, averaged 20.3% compared to 19.2% in 1994. This increased rate of gross profit was related principally to a greater mix of sales in higher margin service lines, such as office and technical. Strong growth of international sales carrying higher gross profit rates also contributed to the overall increase in margins.

Selling, general and administrative expenses were \$107,789,000 in the second quarter, an increase of 22.3% over the same period in 1994. This increase resulted largely from expected growth in business activity, inclusion of newly acquired operations, and continued aggressive investments in new service lines and programs, which promote and improve service quality and customer satisfaction.

Earnings before income taxes were \$27,210,000, an increase of 16.9%, compared to pretax earnings of \$23,275,000 for the same period in 1994. The pretax margin was 4.2%, a .1 percentage point gain over the second quarter of 1994. The increased gross profit rate on sales and volume increases were the principal reasons for the improvement in pretax earnings when compared to the second quarter of 1994.

Income taxes were 38.8% of pretax income, which was a .8 percentage point increase over the applicable tax rate for the second quarter of 1994, due to reduced credits available from the U.S. targeted jobs tax credit program. The program was discontinued effective January 1, 1995.

Net earnings were \$16,660,000 in the second quarter of 1995, an increase of 15.5% over the second quarter of 1994. Earnings per share were \$.44 compared to the \$.38 in the same period last year.

The quarter included the results of operations of The Wallace Law Registry, Inc., acquired on April 28, 1995. The transaction was accounted for as a purchase and was not material.

Year-to-Date

Sales of services totaled \$1,273,102,000 during the first six months of 1995, an increase of 15.6% over 1994. This increase reflects continued growth in the volume of domestic and especially international sales, particularly in Europe. Sales of OK Personnel Service Holding SA in Switzerland (completed July, 1994) and The Wallace Law Registry, Inc. (purchased as of April, 1995) are included with 1995 sales.

Cost of services of \$1,018,406,000 was 14.5% higher than last year, reflecting volume growth, acquisitions, modest inflationary increases in hourly payroll costs and a shift towards higher margin service lines.

The gross profit increased 20.4% in 1995 due to increased sales volume, acquisitions, and a rate of gross profit that averaged 20.0% for the first half of 1995 compared to the 19.2% rate of 1994. This change reflects the increased mix of business in higher margin service lines such as office and technical, plus strong first half sales growth in international operations.

Selling, general and administrative expenses of \$212,094,000 were 20.1% higher than last year, reflecting higher business activity, the acquisition of new businesses and investments in new programs.

Earnings before taxes were \$47,312,000, an increase of 23.9% over 1994. These earnings averaged a pretax margin of 3.7%, or .2 percentage point improvement over 1994. Income taxes were 38.9% of pretax earnings and were .9 percentage point higher than last year's first half income tax rate. As explained above, the elimination of the U.S. targeted jobs tax credit, effective January 1, 1995, is the principal reason for this rate increase.

Net earnings were \$28,922,000, or 22.3% higher than the first six months of 1994. Earnings per share were \$.76 compared to \$.62 last year.

Financial Condition

Assets totaled \$676,505,000 at July 2, 1995, an increase of 5% over the \$642,098,000 at January 1, 1995. Working capital decreased \$2,040,000 during the half-year period. The current ratio was 2.4 at July 2, 1995, a decline of .1 percentage point since January 1. Increased business activity and capital expenditures, including the acquisition during the second quarter of 1995 described above, accounted for the change. Enhancements to automated systems in all branches continue to be made and were a major element of capital spending.

The quarterly dividend rate applicable to Class A and Class B common shares outstanding was increased to \$.20 per share in the second quarter of 1995. This compares to a dividend rate of \$.18 per share in the second quarter of 1994.

Management believes the financial condition of the Company continues to be exceptionally strong, which enables it to fund working capital requirements and longer-term growth opportunities from internal resources.

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., Lenore Simpson Personnel, Ltd., 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 Pinpoint, Inc., Your Staff, Inc. and The Wallace Law Registry, 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 17, 1995.
- (b) The nominees for director, as listed in the Company's proxy statement dated April 13, 1995, 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 "Withheld" -----
T. E. Adderley	3,529,373	38
H. E. Guenther	3,529,373	38
B. J. White	3,529,373	38

(2) Ratification of Non-employee Director Stock Award Plan:

Shares voted "For"	3,479,367
Shares voted "Against"	49,327
Shares voted "Withheld"	717

(3) Approval of standards for performance based, annual incentive awards for certain executive officers under the Company's Short-Term Incentive Plan:

Shares voted "For"	3,475,953
Shares voted "Against"	46,434
Shares voted "Withheld"	7,024

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

Shares voted "For"	3,529,410
Shares voted "Against"	1

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 13 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 15, 1995

/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 October 3, 1993, filed with the Commission in November, 1993, which is incorporated herein by reference.)	
27	Financial Data Schedule	2

