

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 September 28, 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 No

At October 31, 1997, 34,587,665 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		39 Weeks Ended	
	Sept. 28, 1997	Sept. 29, 1996	Sept. 28, 1997	Sept. 29, 1996
Sales of services	\$1,001,209	\$873,242	\$2,841,781	\$2,411,435
Cost of services	824,820	711,950	2,338,946	1,960,202
Gross profit	176,389	161,292	502,835	451,233
Selling, general and administrative expenses	136,464	125,101	406,319	366,181
Earnings from operations	39,925	36,191	96,516	85,052
Interest income, net	62	129	552	1,899
Earnings before income taxes	39,987	36,320	97,068	86,951
Income taxes:				
Federal	13,440	11,830	32,670	27,885
State and other	2,960	3,060	7,140	7,285
Total income taxes	16,400	14,890	39,810	35,170
Net earnings	\$ 23,587	\$ 21,430	\$ 57,258	\$ 51,781
Earnings per share	\$.62	\$.56	\$1.50	\$1.36
Dividends per share	\$.22	\$.21	\$.65	\$.62
Average shares outstanding (thousands)	38,101	38,057	38,080	38,038

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF SEPTEMBER 28, 1997 AND DECEMBER 29, 1996
(UNAUDITED)
(In thousands of dollars)

ASSETS	1997	1996

CURRENT ASSETS:		
Cash and equivalents	\$ 82,316	\$ 33,408
Short-term investments	51,771	28,035
Accounts receivable, less allowances of \$13,740 and \$8,320, respectively	595,441	554,025
Prepaid expenses and other current assets	43,138	43,118
	-----	-----
Total current assets	772,666	658,586
PROPERTY AND EQUIPMENT:		
Land and buildings	44,339	43,748
Equipment, furniture and leasehold improvements	140,178	118,737
Accumulated depreciation	(78,399)	(64,763)
	-----	-----
Total property and equipment	106,118	97,722
INTANGIBLES AND OTHER ASSETS	79,925	82,571
	-----	-----
TOTAL ASSETS	\$958,709	\$838,879
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Short-term borrowings	\$ 46,400	\$ 41,616
Accounts payable	69,513	48,111
Payroll and related taxes	211,813	151,769
Accrued insurance	62,790	53,119
Income and other taxes	25,409	27,365
	-----	-----
Total current liabilities	415,925	321,980
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,007 shares in 1997 and 2,057 shares in 1996, respectively, at cost	(6,222)	(6,197)
Paid-in capital	9,510	8,265
Earnings invested in the business	499,380	474,715
	-----	-----
Total stockholders' equity	542,784	516,899
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$958,709	\$838,879
	=====	=====

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended		39 Weeks Ended	
	Sept. 28, 1997	Sept. 29, 1996	Sept. 28, 1997	Sept. 29, 1996
Capital Stock				
Class A common stock				
Balance at beginning of period	\$ 36,537	\$ 36,527	\$ 36,527	\$ 36,512
Conversions from Class B	--	--	10	15
Balance at end of period	36,537	36,527	36,537	36,527
Class B common stock				
Balance at beginning of period	3,579	3,589	3,589	3,604
Conversions to Class A	--	--	(10)	(15)
Balance at end of period	3,579	3,589	3,579	3,589
Treasury Stock				
Balance at beginning of period	(6,104)	(6,205)	(6,197)	(6,327)
Exercise of stock options	(124)	2	(92)	61
Restricted stock awards	6	3	67	66
Balance at end of period	(6,222)	(6,200)	(6,222)	(6,200)
Paid-in Capital				
Balance at beginning of period	9,080	8,194	8,265	7,215
Exercise of stock options	375	12	781	474
Restricted stock awards	55	32	464	549
Balance at end of period	9,510	8,238	9,510	8,238
Earnings Invested in the Business				
Balance at beginning of period	485,744	447,231	474,715	435,100
Net earnings	23,587	21,430	57,258	51,781
Cash dividends	(8,382)	(7,992)	(24,754)	(23,586)
Equity adjustment for foreign currency translation (cumulative charges of \$7,533 and \$406 in 1997 and 1996, respectively)	(1,569)	99	(7,839)	(2,527)
Balance at end of period	499,380	460,768	499,380	460,768
Stockholders' Equity at end of period	<u>\$542,784</u>	<u>\$502,922</u>	<u>\$542,784</u>	<u>\$502,922</u>

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(UNAUDITED)

FOR THE 39 WEEKS ENDED SEPTEMBER 28, 1997 AND SEPTEMBER 29, 1996

(In thousands of dollars)

	1997	1996
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 57,258	\$ 51,781
Noncash adjustments:		
Depreciation and amortization	19,449	19,316
Changes in certain working capital components	43,863	(124,373)
	-----	-----
Net cash from operating activities	120,570	(53,276)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(26,633)	(17,745)
Proceeds from sales and maturities of short-term investments	1,361,406	835,485
Purchases of short-term investments	(1,385,142)	(797,172)
Increase in intangibles and other assets	(2,543)	(8,385)
	-----	-----
Net cash from investing activities	(52,912)	12,183
	-----	-----
Cash flows from financing activities:		
Increase in short-term borrowings	4,784	20,321
Dividend payments	(24,754)	(23,586)
Exercise of stock options and restricted stock awards	1,220	1,150
	-----	-----
Net cash from financing activities	(18,750)	(2,115)
	-----	-----
Net change in cash and equivalents	48,908	(43,208)
Cash and equivalents at beginning of period	33,408	52,811
	-----	-----
Cash and equivalents at end of period	\$ 82,316	\$ 9,603
	=====	=====

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

Results of Operations:

Third Quarter

Sales of services in the third quarter of 1997 were \$1,001,209,000, an increase of 15% 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 16% in the third 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 \$176,389,000 was 9.4% higher than the third quarter of 1996, and gross profit as a percentage of sales declined from 18.5% in 1996 to 17.6% in 1997. The growth of sales with our largest customers where contracts require special pricing and additional implementation costs and the upward pressure on wage costs noted above had the effect of reducing the consolidated gross profit rate.

Selling, general and administrative expenses were \$136,464,000 in the third quarter, an increase of 9.1% over the same period in 1996. Expenses averaged 13.6% of sales compared to 14.3% in last year's third 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 \$39,925,000 were 10.3% greater than the third quarter of 1996. Earnings before income taxes were \$39,987,000, an increase of 10.1%, compared to pretax earnings of \$36,320,000 for the same period in 1996. The pretax margin was 4.0%, a .2 percentage point decrease from the third quarter of 1996. The decrease was primarily due to reduced gross profit, offset by lower expense ratios. Income taxes were 41.0% of pretax income in the third quarters of 1997 and 1996.

Net earnings were \$23,587,000 in the third quarter of 1997, an increase of 10.1% over the third quarter of 1996. Earnings per share were \$.62 compared to \$.56 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 \$2,841,781,000 during the first nine months of 1997, an increase of 18% over 1996. This increase reflects continued growth in the volume of both domestic and foreign sales.

Cost of services of \$2,338,946,000 was 19% 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 11.4% in 1997 due to increased sales, but at lower gross profit rates. The gross profit rate was 17.7% for the first nine months of 1997 compared to 18.7% for 1996. This decline reflects growth with our very large customers, not only in the United States but in foreign markets as well.

Selling, general and administrative expenses of \$406,319,000 were 11.0% higher than last year. The spending rate was 14.3% of sales, .9 percentage point below last year's rate. Expenses continue to be closely monitored in both U.S. and overseas markets.

Earnings before taxes were \$97,068,000, an increase of 11.6% over 1996. These earnings averaged a pretax margin of 3.4%, or .2 percentage point decrease from 1996. The decrease was due to lower gross profit, offset by lower expense ratios and lower net interest income. Income taxes were 41.0% of pretax earnings and were .6 percentage point higher than last year's income tax rate for the first nine months. Reduced tax-exempt income and earnings growth in our foreign operations where tax rates are higher account for this change.

Net earnings were \$57,258,000, or 10.6% higher than the first nine months of 1996. Earnings per share were \$1.50 compared to \$1.36 last year.

Financial Condition

Assets totaled \$958,709,000 at September 28, 1997, an increase of 14.3% over the \$838,879,000 at December 29, 1996. Working capital increased \$20,135,000 during the nine-month period. The current ratio was 1.9 at September 28, 1997, a decline of .1 percentage point from December 29, 1996.

During the first nine months of 1997, cash flows from operating activities were \$120,570,000 compared to a decline of \$53,276,000 during the first nine months 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 during both 1997 and 1996 were principally for expanding and improving the worldwide branch network. In addition for 1997, capital expenditures included amounts for developing new information systems.

In 1998, the Company will begin implementation of a major information technology program which is expected to extend over the next five years. The program includes completing work on Millennium 2000, deploying a new worldwide telecommunications network, installing new hardware and software computer systems, and replacing the current branch automation system.

Any one of these initiatives would represent a serious commitment. In combination, they will require an investment of over \$100 million, of which \$15-20 million will be Millennium 2000 expense.

In the long term, the new technology should enhance the Company's productivity and growth. In the short term, however, these costs are expected to have some impact on earnings. It is estimated that earnings growth, which has been running at about 10 percent this year, could be held to 4-6 percent in each of the next two years. This further assumes the absence of an economic slowdown.

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

Statements Relating to Future Events

Certain information in this report relating to future events is subject to risks and uncertainties, such as: competition, changing market and economic conditions, currency fluctuations, changes in laws and regulations, the Company's ability to effectively implement and manage its information technology programs and other factors discussed in this document. Actual results may differ materially from any projections contained herein.

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., Kelly Services CIS, Inc., Personnel Corps ZAO and Kelly Services (societa di forniture di lavare temporaneo) SpA.

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 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: November 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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9-MOS		
	DEC-28-1997	
	SEP-28-1997	
		82,316
		51,771
		609,181
		13,740
		0
	772,666	184,517
		78,399
	958,709	
415,925		0
	0	0
		0
		40,116
		502,668
958,709		0
	2,841,781	0
		0
	2,338,946	
		0
		0
		0
	97,068	
		39,810
57,258		0
		0
		0
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	57,258	
		1.50
		0