

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 March 31, 1996

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 May 6, 1996, 34,449,007 shares of Class A and 3,583,605 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	
	March 31, 1996	April 2, 1995
Sales of services	\$733,931	\$620,685
Cost of services	596,245	498,667
Gross profit	137,686	122,018
Selling, general and administrative expenses	117,738	104,305
Earnings from operations	19,948	17,713
Interest income	1,545	2,389
Earnings before income taxes	21,493	20,102
Income taxes:		
Federal	6,785	6,390
State and other	1,805	1,450
Total income taxes	8,590	7,840
Net earnings	\$ 12,903	\$ 12,262
Earnings per share	\$.34	\$.32
Dividends per share	\$.20	\$.18
Average shares outstanding (thousands)	38,016	37,967

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF MARCH 31, 1996 AND DECEMBER 31, 1995
(UNAUDITED)
(In thousands of dollars)

ASSETS	1996	1995

CURRENT ASSETS:		
Cash and equivalents	\$ 62,341	\$ 52,811
Short-term investments	76,291	74,737
Accounts receivable, less allowances of \$9,870 and \$6,950, respectively	413,392	397,534
Prepaid expenses and other current assets	33,706	33,520
	-----	-----
Total current assets	585,730	558,602
PROPERTY AND EQUIPMENT:		
Land and buildings	35,134	35,153
Equipment, furniture and leasehold improvements	116,237	113,521
Accumulated depreciation	(68,077)	(64,286)
	-----	-----
Total property and equipment	83,294	84,388
INTANGIBLES AND OTHER ASSETS	76,178	75,697
	-----	-----
TOTAL ASSETS	\$745,202	\$718,687
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable	\$ 51,310	\$ 53,013
Payroll and related taxes	133,905	118,996
Accrued insurance	52,918	51,309
Income and other taxes	26,840	19,265
	-----	-----
Total current liabilities	264,973	242,583
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,097 shares in 1996 and 2,101 shares in 1995, respectively, at cost	(6,314)	(6,327)
Paid-in capital	7,324	7,215
Earnings invested in the business	439,103	435,100
	-----	-----
Total stockholders' equity	480,229	476,104
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$745,202	\$718,687
	=====	=====

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended	
	March 31, 1996	April 2, 1995
Capital Stock		
Class A common stock		
Balance at beginning of period	\$ 36,512	\$ 36,507
Conversions from Class B	--	3
Balance at end of period	36,512	36,510
Class B common stock		
Balance at beginning of period	3,604	3,609
Conversions to Class A	--	(3)
Balance at end of period	3,604	3,606
Treasury Stock		
Balance at beginning of period	(6,327)	(6,186)
Exercise of stock options	9	(30)
Restricted stock awards	4	--
Balance at end of period	(6,314)	(6,216)
Paid-in Capital		
Balance at beginning of period	7,215	5,868
Exercise of stock options	72	342
Restricted stock awards	37	--
Balance at end of period	7,324	6,210
Earnings Invested in the Business		
Balance at beginning of period	435,100	391,718
Net earnings	12,903	12,262
Cash dividends	(7,603)	(6,834)
Equity adjustment for foreign currency translation (cumulative credits of \$824 in 1996 and \$4,038 in 1995)	(1,297)	5,446
Balance at end of period	439,103	402,592
Stockholders' Equity at end of period	\$480,229	\$442,702

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE 13 WEEKS ENDED MARCH 31, 1996 AND APRIL 2, 1995
(In thousands of dollars)

	1996	1995
	-----	-----
Cash flows from operating activities:		
Net earnings	\$12,903	\$12,262
Noncash adjustments:		
Depreciation and amortization	6,440	5,138
Changes in certain working capital components	5,752	18,515
	-----	-----
Cash from operating activities	25,095	35,915
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(4,888)	(4,518)
Proceeds from sales and maturities of short-term investments	333,018	301,744
Purchases of short-term investments	(334,572)	(314,461)
Increase in intangibles and other assets	(1,642)	(677)
	-----	-----
Net cash from investing activities	(8,084)	(17,912)
	-----	-----
Cash flows from financing activities:		
Dividend payments	(7,603)	(6,834)
Exercise of stock options and restricted stock awards	122	312
	-----	-----
Net cash from financing activities	(7,481)	(6,522)
	-----	-----
Net change in cash and equivalents	9,530	11,481
Cash and equivalents at beginning of period	52,811	49,207
	-----	-----
Cash and equivalents at end of period	\$62,341	\$60,688
	=====	=====

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

Results of Operations:

First Quarter

Sales of services in the first quarter of 1996 were \$733,931,000, an increase of 18.2% over the same period in 1995. Domestic sales grew 17%, reflecting growth in the traditional staffing business and significant expansion in our staff leasing services. International sales continued to grow at double digit rates.

Cost of services, consisting of payroll and related costs of employees assigned to customers, increased 19.6% in the first quarter as compared to the same period in 1995. Average hourly wages and related costs from U.S. operations increased 8% from 1995 due to a tightening labor market.

Gross profit of \$137,686,000 was 12.8% higher than 1995, while the Company-wide gross profit rate declined from 19.7% in 1995 to 18.8% in 1996. Growth in the staff leasing business, with its inherently lower margins, along with the upward pressure on wage rates noted above and growth of sales with our very large customers, where contracts require special pricing and additional implementation costs, all had the effect of reducing the consolidated gross profit rate.

Selling, general and administrative expenses were \$117,738,000 in the first quarter, an increase of 12.9% over the same period in 1995. As a percent of sales, the spending rate averaged 16.0%, or .8 percentage point below last year's first quarter.

Earnings before income taxes were \$21,493,000, an increase of 6.9% compared to pre-tax earnings of \$20,102,000 for the same period in 1995. The pre-tax margin was 2.9%, a .3 percentage point decrease from the first quarter of 1995. Lower interest income represented .2 percentage point of the decline while the net of lower gross margins and lower expense spending accounted for the remaining .1 percentage point of the decrease.

Income taxes were 40% of pre-tax income. This was one percentage point over the applicable tax rate for the first quarter of 1995 due to increased state tax rates, reduced tax-exempt income and the expiration of tax credits earned through the targeted jobs tax credit program.

Net earnings were \$12,903,000 in the first quarter of 1996, an increase of 5.2% over the first quarter of 1995. Earnings per share were \$.34 compared to the \$.32 in the same period last year.

Financial Condition

Assets totaled \$745,202,000 at March 31, 1996, an increase of 3.7% over the \$718,687,000 at December 31, 1995. Working capital increased \$4,738,000 during the three-month period. The current ratio was 2.2 at March 31, 1996, a decline of .1 percentage point since December 31, 1995. Increased business activity during the first quarter of 1996 accounted for the change.

The quarterly dividend rate applicable to Class A and Class B shares was \$.20 and \$.18 per share in the first quarters of 1996 and 1995, respectively.

Management believes the financial condition of the Company continues to be strong, which enables it to fund working capital requirements and long-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., The Wallace Law Registry, Inc., Kelly Services France S.A., Bourse Du Travail Temporaire 2000, Kelly Formation S.A.R.L. and Kelly Services Luxembourg S.A.R.L.

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 1. Legal Proceedings.

Reference is made to Item 3, Legal Proceedings, of the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and to the description therein of the imposition by the Internal Revenue Service of an accumulated earnings tax in connection with an audit of the Company's consolidated federal tax liability. In April, 1996, this assessment was waived in its entirety by the Internal Revenue Service.

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 11 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: May 14, 1996

/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.)	
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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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3-MOS	DEC-29-1996		
	MAR-31-1996		
		62,341	
		76,291	
		423,262	
		9,870	
		0	
	585,730		151,371
		68,077	
		745,202	
	264,973		0
	0		0
		0	
		40,116	
		440,113	
745,202			0
	733,931		0
		596,245	
		0	
		0	
		0	
		21,493	
		8,590	
	12,903		
		0	
		0	
			0
		12,903	
		.34	
		0	