

Index to Exhibits on page 12

- 1 -

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 3, 1994

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 8, 1994, 34,355,816 shares of Class A and 3,603,124 shares of Class B common stock of the Registrant were outstanding.

- 2 -

KELLY SERVICES, INC. AND SUBSIDIARIES

Page  
Number  
-----

PART I. FINANCIAL INFORMATION

Statements of Earnings

3

Balance Sheets	4
Statements of Stockholders' Equity	5
Statements of Cash Flows	6
Note to Financial Statements	7
Management's Discussion and Analysis of Results of Operations and Financial Condition	8
PART II. OTHER INFORMATION	10
Signature	11
Index to Exhibits Required by Item 601, Regulation S-K	12

- 3 -

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF EARNINGS  
(In thousands of dollars except per share items)

	13 Weeks Ended		26 Weeks Ended	
	July 3, 1994	July 4, 1993	July 3, 1994	July 4, 1993
Sales of services	\$570,813	\$482,034	\$1,101,004	\$932,688
Cost of services	461,093	388,906	889,467	753,630
Gross profit	109,720	93,128	211,537	179,058
Selling, general and administrative expenses	88,111	79,178	176,535	156,374
Earnings from operations	21,609	13,950	35,002	22,684
Interest income	1,666	1,739	3,171	3,704
Earnings before income taxes	23,275	15,689	38,173	26,388
Income taxes:				
Federal	7,000	4,345	11,520	7,320
State and other	1,855	1,335	3,000	2,180
Total income taxes	8,855	5,680	14,520	9,500
Net earnings	\$ 14,420	\$ 10,009	\$ 23,653	\$ 16,888
Earnings per share	\$.38	\$.27	\$.62	\$.45
Dividends per share	\$.18	\$.16	\$.34	\$.312
Average shares outstanding (thousands)	37,955	37,723	37,951	37,721

See accompanying Note to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF JULY 3, 1994 AND JANUARY 2, 1994  
(In thousands of dollars)

ASSETS	1994	1993
-----	-----	-----
CURRENT ASSETS:		
Cash and equivalents	\$ 42,791	\$ 36,020
Short-term investments (at cost which approximates market)	144,787	144,988
Accounts receivable, less allowances of \$5,595 and \$4,735, respectively	280,366	248,161
Prepaid expenses and other current assets	17,639	17,881
	-----	-----
Total current assets	485,583	447,050
PROPERTY AND EQUIPMENT:		
Land and buildings	30,932	29,882
Equipment, furniture and leasehold improvements	89,276	82,227
Accumulated depreciation	(52,430)	(43,827)
	-----	-----
Total property and equipment	67,778	68,282
OTHER ASSETS	33,948	26,768
	-----	-----
TOTAL ASSETS	\$587,309	\$542,100
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES:		
Accounts payable	\$ 23,799	\$ 24,621
Payroll and related taxes	94,161	68,451
Accrued insurance	55,547	51,841
Income and other taxes	9,212	10,968
	-----	-----
Total current liabilities	182,719	155,881
	-----	-----
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,157 shares in 1994 and 2,361 shares in 1993, respectively, at cost	(6,138)	(6,702)
Paid-in capital	5,736	679
Earnings invested in the business	364,876	352,126
	-----	-----
Total stockholders' equity	404,590	386,219
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$587,309	\$542,100
	=====	=====

See accompanying Note to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands of dollars)

	July 3, 1994	July 4, 1993	July 3, 1994	July 4, 1993
<b>Capital Stock</b>				
Class A common stock				
Balance at beginning of period	\$ 36,507	\$ 29,206	\$ 36,507	\$ 29,195
Five-for-four stock split	--	7,301	--	7,301
Conversions from Class B	--	--	--	11
Balance at end of period	36,507	36,507	36,507	36,507
Class B common stock				
Balance at beginning of period	3,609	2,887	3,609	2,898
Five-for-four stock split	--	722	--	722
Conversions to Class A	--	--	--	(11)
Balance at end of period	3,609	3,609	3,609	3,609
<b>Treasury Stock</b>				
Balance at beginning of period	(6,153)	(6,696)	(6,702)	(6,736)
Exercise of stock options	15	(4)	35	36
Treasury stock issued for acquisition	--	--	529	--
Balance at end of period	(6,138)	(6,700)	(6,138)	(6,700)
<b>Paid-in Capital</b>				
Balance at beginning of period	5,628	3,947	679	3,629
Exercise of stock options	108	18	254	336
Five-for-four stock split	--	(3,965)	--	(3,965)
Treasury stock issued for acquisition	--	--	4,803	--
Balance at end of period	5,736	--	5,736	--
<b>Earnings Invested in the Business</b>				
Balance at beginning of period	355,219	339,856	352,126	338,273
Net earnings	14,420	10,009	23,653	16,888
Cash dividends	(6,832)	(6,035)	(12,904)	(11,769)
Five-for-four stock split	--	(4,058)	--	(4,058)
Fractional shares paid	--	(18)	--	(18)
Equity adjustment for foreign currency translation (cumulative charge of \$4,512 in 1994 and \$4,559 in 1993)	2,069	(1,268)	2,001	(830)
Balance at end of period	364,876	338,486	364,876	338,486
Stockholders' Equity at end of period	\$404,590	\$371,902	\$404,590	\$371,902

See accompanying Note to Financial Statements.

- 6 -

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS  
FOR THE 26 WEEKS ENDED JULY 3, 1994 AND JULY 4, 1993  
(In thousands of dollars)

	1994	1993
Cash flows from operating activities:		
Net earnings	\$23,653	\$16,888
Noncash adjustments:		
Depreciation	8,603	8,013
Changes in certain working capital components	(4,018)	(24,740)
Net cash from operating activities	28,238	161

Cash flows from investing activities:		
Capital expenditures	(7,759)	(5,721)
Short-term investments	201	18,999
Increase in other assets	(1,294)	(1,953)
	-----	-----
Net cash from investing activities	(8,852)	11,325
	-----	-----
Cash flows from financing activities:		
Dividend payments	(12,904)	(11,769)
Exercise of stock options	289	372
Fractional shares paid	--	(18)
	-----	-----
Net cash from financing activities	(12,615)	(11,415)
	-----	-----
Net change in cash and equivalents	6,771	71
Cash and equivalents at beginning of period	36,020	29,700
	-----	-----
Cash and equivalents at end of period	\$42,791	\$29,771
	=====	=====

See accompanying Note to Financial Statements.

- 7 -

KELLY SERVICES, INC. AND SUBSIDIARIES

NOTE TO FINANCIAL STATEMENTS

Acquisition  
- -----

In January, 1994, the Company acquired all outstanding stock of Your Staff, Inc., an employee leasing company, through the issuance of Class A common stock shares from treasury. The acquisition has been accounted for using the purchase method of accounting and therefore the accompanying financial statements include the accounts of Your Staff, Inc. since the date of acquisition. Pro forma results of the acquisition, assuming it had been made at the beginning of each period presented, would not be materially different from the results reported.

- 8 -

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 1994 totaled \$570,813,000, an increase of 18.4% from the same period in 1993. This increase reflected a growth in both domestic and international sales and the inclusion of recent acquisitions.

Cost of services, consisting of payroll and related costs of temporary employees, increased 18.6% in the second quarter as compared to the same period in 1993. Average hourly payroll costs increased 5% over 1993 due to inflation and business mix.

The gross profit rate of 19.2% in the second quarter was .1 percentage point lower than the previous year, down slightly with the inclusion of

lower margin employee leasing operations this year. Continued improvement in U.S. temporary help margins since the middle of last year has helped to offset pricing pressures in certain European countries.

Selling, general, and administrative expenses of \$88,111,000 in the second quarter increased 11.3% from the same period in 1993. This increase was due to the higher level of business activity, new programs and operating expenses incurred by new acquisitions.

Earnings before taxes were \$23,275,000, an increase of 48.4% compared to the pretax earnings for the same period in 1993. The pretax margin was 4.1% compared to 3.3% in the second quarter of 1993. Income taxes as a percentage of pretax earnings were 38.0%, 1.8 percentage points more than the rate applicable to the second quarter of 1993. The 1994 rate reflected the impact of the statutory increase in the corporate tax rate which was enacted in 1993, as well as reduced tax exempt investment income.

Net earnings were \$14,420,000 in the second quarter of 1994, compared to \$10,009,000 in 1993, an increase of 44.1%. Earnings per share were \$.38 compared to the \$.27 earned in the same period last year.

#### Year-to-Date

Sales of services totaled \$1,101,004,000 an increase of 18.0% from 1993 sales. This increase reflects a continued improvement in year-over-year sales performance and acquisitions.

Cost of services of \$889,467,000 was 18.0% higher than last year, reflecting growth in hours volume and inflationary increases in payroll costs during the year.

The gross profit rate was 19.2% for both years.

- 9 -

Selling, general, and administrative expenses of \$176,535,000 were 12.9% higher than last year, reflecting greater business activity and continuing investment in domestic and overseas markets.

Earnings before taxes were \$38,173,000, a 44.7% increase from last year. The pretax margin was 3.5%, an increase of .7 percentage point from last year. Income taxes as a percentage of pretax earnings were 38.0%, 2 percentage points higher than the rate applicable to last year, reflecting the impact of the statutory increase in the corporate tax rate enacted in 1993.

Net earnings were \$23,653,000 which was 40.1% over 1993. Earnings per share were \$.62 as compared to \$.45 in 1993.

#### Financial Condition

Assets totaled \$587,309,000 at July 3, 1994, an increase of 8% over the \$542,100,000 at January 2, 1994. Working capital increased \$7,977,000 in the second quarter and \$11,695,000 since the 1993 year-end.

The quarterly dividend rate applicable to Class A and Class B shares outstanding was \$.18 and \$.16 per share in the second quarters of 1994 and 1993, respectively.

The Company believes it is in a sound financial position to fully meet its current working capital needs and its longer term capital requirements.

-----  
Companies for which this report is filed are: Kelly Services, Inc. and

its subsidiaries, Kelly Assisted Living Services, Inc., Kelly Properties, Inc., Kelly Professional 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., Kelly de Mexico, S.A. de C.V., Kelly Services Norge A.S., KSI Acquisition Corp., Mentrax Corporation and Your Staff, 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 18, 1994.
- (b) The nominees for director, as listed in the Company's proxy statement dated April 8, 1994, 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" -----
C. V. Fricke	3,474,415	891
V. G. Istock	3,474,415	891

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

Shares voted "For"	3,473,661
Shares voted "Abstaining"	1,645

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 15, 1994

/s/ R. F. Stoner  
R. F. Stoner

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 -----
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.)