

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 30, 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)

(810) 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

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At May 2, 1997, 34,485,515 shares of Class A and 3,579,524 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 30, 1997	March 31, 1996
Sales of services	\$880,846	\$733,931
Cost of services	724,508	596,245
Gross profit	156,338	137,686
Selling, general and administrative expenses	132,219	117,302
Earnings from operations	24,119	20,384
Interest income, net	4	1,109
Earnings before income taxes	24,123	21,493
Income taxes:		
Federal	8,135	6,785
State and other	1,760	1,805
Total income taxes	9,895	8,590
Net earnings	\$ 14,228	\$ 12,903
Earnings per share	\$.37	\$.34
Dividends per share	\$.21	\$.20
Average shares outstanding (thousands)	38,061	38,016



KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF MARCH 30, 1997 AND DECEMBER 29, 1996  
(UNAUDITED)  
(In thousands of dollars)

ASSETS	1997	1996
-----		
CURRENT ASSETS:		
Cash and equivalents	\$ 70,897	\$ 33,408
Short-term investments	21,413	28,035
Accounts receivable, less allowances of \$9,900 and \$8,320, respectively	557,995	554,025
Prepaid expenses and other current assets	43,336	43,118
	-----	-----
Total current assets	693,641	658,586
PROPERTY AND EQUIPMENT:		
Land and buildings	43,746	43,748
Equipment, furniture and leasehold improvements	122,167	118,737
Accumulated depreciation	(68,516)	(64,763)
	-----	-----
Total property and equipment	97,397	97,722
INTANGIBLES AND OTHER ASSETS	78,667	82,571
	-----	-----
TOTAL ASSETS	\$869,705	\$838,879
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES:		
Short-term borrowings	\$ 42,238	\$ 41,616
Accounts payable	58,091	48,111
Payroll and related taxes	166,263	151,769
Accrued insurance	56,071	53,119
Income and other taxes	28,947	27,365
	-----	-----
Total current liabilities	351,610	321,980
	-----	-----
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,053 shares in 1997 and 2,057 shares in 1996, respectively, at cost	(6,204)	(6,197)
Paid-in capital	8,365	8,265
Earnings invested in the business	475,818	474,715
	-----	-----
Total stockholders' equity	518,095	516,899
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$869,705	\$838,879
	=====	=====





KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended	
	March 30, 1997	March 31, 1996
Capital Stock		
Class A common stock		
Balance at beginning of period	\$ 36,527	\$ 36,512
Conversions from Class B	4	--
Balance at end of period	36,531	36,512
Class B common stock		
Balance at beginning of period	3,589	3,604
Conversions to Class A	(4)	--
Balance at end of period	3,585	3,604
Treasury Stock		
Balance at beginning of period	(6,197)	(6,327)
Exercise of stock options	(9)	9
Restricted stock awards	2	4
Balance at end of period	(6,204)	(6,314)
Paid-in Capital		
Balance at beginning of period	8,265	7,215
Exercise of stock options	84	72
Restricted stock awards	16	37
Balance at end of period	8,365	7,324
Earnings Invested in the Business		
Balance at beginning of period	474,715	435,100
Net earnings	14,228	12,903
Cash dividends	(7,993)	(7,603)
Equity adjustment for foreign currency translation (cumulative charge of \$4,826 in 1997 and credit of \$824 in 1996)	(5,132)	(1,297)
Balance at end of period	475,818	439,103
Stockholders' Equity at end of period	\$518,095	\$480,229



KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS  
(UNAUDITED)

FOR THE 13 WEEKS ENDED MARCH 30, 1997 AND MARCH 31, 1996  
(In thousands of dollars)

	1997	1996
	-----	-----
Cash flows from operating activities:		
Net earnings	\$14,228	\$12,903
Noncash adjustments:		
Depreciation and amortization	6,439	6,440
Changes in certain working capital components	22,254	6,479
	-----	-----
Cash from operating activities	42,921	25,822
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(6,131)	(4,888)
Proceeds from sales and maturities of short-term investments	518,006	333,018
Purchases of short-term investments	(511,384)	(334,572)
(Increase) decrease in intangibles and other assets	1,355	(1,642)
	-----	-----
Net cash from investing activities	1,846	(8,084)
	-----	-----
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	622	(727)
Dividend payments	(7,993)	(7,603)
Exercise of stock options and restricted stock awards	93	122
	-----	-----
Net cash from financing activities	(7,278)	(8,208)
	-----	-----
Net change in cash and equivalents	37,489	9,530
Cash and equivalents at beginning of period	33,408	52,811
	-----	-----
Cash and equivalents at end of period	\$70,897	\$62,341
	=====	=====



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 1997 were \$880,846,000, an increase of 20% 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 21.5% in the first quarter as compared to the same period in 1996. Average hourly wage rates and related costs from U.S. operations have increased from 1996 at a rate somewhat higher than the general inflation rate, due to a tightening labor market.

Gross profit of \$156,338,000 was 13.5% higher than the first quarter of 1996, and gross profit as a percentage of sales declined from 18.8% 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 rates 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 \$132,219,000 in the first quarter, an increase of 12.7% over the same period in 1996. As a percent of sales, the spending rate averaged 15.0%, compared to 16.0% in last year's first 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 \$24,119,000 were 18.3% greater than the first quarter of 1996. Earnings before income taxes were \$24,123,000, an increase of 12.2%, compared to pretax earnings of \$21,493,000 for the same period in 1996. The pretax margin was 2.7%, a .2 percentage point decrease from the first quarter of 1996. This was due to lower interest income, net and the lower gross profit and expense ratios.

Income taxes were 41.0% of pretax income. This was 1.0 percentage point over the applicable tax rate for the first quarter of 1996 due to reduced tax-exempt income and higher foreign tax rates. (The income tax rate for the year 1996 averaged 40.6%.)



Net earnings were \$14,228,000 in the first quarter of 1997, an increase of 10.3% over the first quarter of 1996. Earnings per share were \$.37 compared to \$.34 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.

#### Financial Condition

Assets totaled \$869,705,000 at March 30, 1997, an increase of 3.7% over the \$838,879,000 at December 29, 1996. Working capital increased \$5,425,000 during the three-month period. The current ratio was 2.0 at March 30, 1997 and December 29, 1996.

During the first quarter of 1997, the Company generated cash flows from operating activities totaling \$42,921,000, an increase of 66% over the comparable period in 1996. This increase resulted principally from increases in net earnings and liability balances. 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 \$.21 per share in the first quarter of 1997. This compares to a dividend rate of \$.20 per share in the first 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.

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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. (formerly Your Staff, 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 6. Exhibits and Reports on Form 8-K.  
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- (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 13, 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

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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.)	
27	Financial Data Schedule	2



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-28-1997	
	MAR-30-1997	
		70,897
		21,413
		567,895
		9,900
		0
	693,641	165,913
		68,516
		869,705
	351,610	
		0
	0	
		0
		40,116
		477,979
869,705		0
	880,846	0
		0
	724,508	
	0	
	0	
	0	
	24,123	
		9,895
	14,228	
		0
		0
		0
		0
	14,228	
		.37
		0