

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 29, 1998

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 May 1, 1998, 34,653,026 shares of Class A and 3,570,195 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 29, 1998	March 30, 1997
Sales of services	\$959,382	\$880,846
Cost of services	791,472	724,508
Gross profit	167,910	156,338
Selling, general and administrative expenses	143,069	132,219
Earnings from operations	24,841	24,119
Interest income, net	693	4
Earnings before income taxes	25,534	24,123
Income taxes:		
Federal	8,555	8,135
State and other	1,915	1,760
Total income taxes	10,470	9,895
Net earnings	\$ 15,064	\$ 14,228
Earnings per share:		
Basic	\$.39	\$.37
Diluted	.39	.37
Average shares outstanding (thousands):		
Basic	38,177	38,061
Diluted	38,384	38,115
Dividends per share	\$.22	\$.21

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF MARCH 29, 1998 AND DECEMBER 28, 1997
(In thousands of dollars)

ASSETS	1998	1997
- - - - -	-----	-----
CURRENT ASSETS:	(UNAUDITED)	
Cash and equivalents	\$ 115,493	\$ 76,690
Short-term investments	67,628	67,301
Accounts receivable, less allowances of \$11,830 and \$12,375, respectively	570,636	572,134
Prepaid expenses and other current assets	55,996	54,847
Total current assets	809,753	770,972
PROPERTY AND EQUIPMENT:		
Land and buildings	44,376	44,405
Equipment, furniture and leasehold improvements	136,711	130,472
Accumulated depreciation	(67,602)	(62,144)
Total property and equipment	113,485	112,733
INTANGIBLES AND OTHER ASSETS	80,769	83,524
TOTAL ASSETS	<u>\$1,004,007</u>	<u>\$967,229</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
- - - - -		
CURRENT LIABILITIES:		
Short-term borrowings	\$ 47,858	\$ 54,958
Accounts payable	68,710	60,408
Payroll and related taxes	220,740	197,092
Accrued insurance	63,082	61,077
Income and other taxes	36,878	33,865
Total current liabilities	437,268	407,400
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 1,894,000 shares in 1998 and 1,953,000 shares in 1997, respectively, at cost	(6,282)	(6,214)
Paid-in capital	12,627	10,980
Earnings invested in the business	528,703	522,039
Accumulated foreign currency adjustments	(8,425)	(7,092)
Total stockholders' equity	566,739	559,829
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$1,004,007</u>	<u>\$967,229</u>

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended	
	March 29, 1998	March 30, 1997
	-----	-----
Capital Stock		
Class A common stock		
Balance at beginning of period	\$ 36,538	\$ 36,527
Conversions from Class B	2	4
	-----	-----
Balance at end of period	36,540	36,531
Class B common stock		
Balance at beginning of period	3,578	3,589
Conversions to Class A	(2)	(4)
	-----	-----
Balance at end of period	3,576	3,585
Treasury Stock		
Balance at beginning of period	(6,214)	(6,197)
Exercise of stock options	(73)	(9)
Restricted stock awards	5	2
	-----	-----
Balance at end of period	(6,282)	(6,204)
Paid-in Capital		
Balance at beginning of period	10,980	8,265
Exercise of stock options	1,612	84
Restricted stock awards	35	16
	-----	-----
Balance at end of period	12,627	8,365
Earnings Invested in the Business		
Balance at beginning of period	522,039	474,409
Net earnings	15,064	14,228
Cash dividends	(8,400)	(7,993)
	-----	-----
Balance at end of period	528,703	480,644
Accumulated Foreign Currency Adjustments		
Balance at beginning of period	(7,092)	306
Equity adjustment for foreign currency	(1,333)	(5,132)
	-----	-----
Balance at end of period	(8,425)	(4,826)
	-----	-----
Stockholders' Equity at end of period	\$566,739	\$518,095
	=====	=====
Comprehensive Income		
Net earnings	\$ 15,064	\$ 14,228
Other comprehensive income - Foreign currency adjustments	(1,333)	(5,132)
	-----	-----
Comprehensive Income	\$ 13,731	\$ 9,096
	=====	=====

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE 13 WEEKS ENDED MARCH 29, 1998 AND MARCH 30, 1997
(In thousands of dollars)

	1998	1997
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 15,064	\$ 14,228
Noncash adjustments:		
Depreciation and amortization	6,802	6,439
Changes in certain working capital components	36,677	22,254
	-----	-----
Net cash from operating activities	58,543	42,921
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(7,031)	(6,131)
Proceeds from sales and maturities of short-term investments	409,802	518,006
Purchases of short-term investments	(410,129)	(511,384)
Decrease in intangibles and other assets	1,539	1,355
	-----	-----
Net cash from investing activities	(5,819)	1,846
	-----	-----
Cash flows from financing activities:		
(Decrease) increase in short-term borrowings	(7,100)	622
Dividend payments	(8,400)	(7,993)
Exercise of stock options and restricted stock awards	1,579	93
	-----	-----
Net cash from financing activities	(13,921)	(7,278)
	-----	-----
Net change in cash and equivalents	38,803	37,489
Cash and equivalents at beginning of period	76,690	33,408
	-----	-----
Cash and equivalents at end of period	\$115,493	\$ 70,897
	=====	=====

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 1998 were \$959.4 million, an increase of 8.9% from the same period in 1997. Sales growth was strong in foreign operations while domestic sales expanded at a moderate rate.

Cost of services, consisting of payroll and related tax and benefit costs of employees assigned to customers, increased 9.2% in the first quarter as compared to the same period in 1997. Direct wage costs have increased from 1997 at a rate somewhat higher than the general inflation rate, due to strong worldwide demand for labor.

Gross profit of \$167.9 million was 7.4% higher than the first quarter of 1997, and gross profit as a percentage of sales declined from 17.7% in 1997 to 17.5% in 1998. The growth of sales with our largest customers where contracts require special pricing and additional implementation costs, especially in the foreign markets, 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 \$143.1 million in the first quarter, an increase of 8.2% over the same period in 1997. Expenses averaged 14.9% of sales as compared to 15.0% in last year's first quarter. The rate of growth of these expenses inclusive of year 2000 modification costs in relationship to the sales increases reflects the Company's emphasis on expense control.

Earnings from operations of \$24.8 million were 3.0% greater than the first quarter of 1997. Interest income (net) of \$.7 million increased significantly as compared to the first quarter of 1997 due to higher average cash and short-term investment balances.

Earnings before income taxes were \$25.5 million, an increase of 5.8%, compared to pretax earnings of \$24.1 million for the same period in 1997. The pretax margin was 2.7% in the first quarters of both 1998 and 1997. Income taxes were 41.0% of pretax income in the first quarters of 1998 and 1997.

Net earnings were \$15.1 million in the first quarter of 1998, an increase of 5.9% over the first quarter of 1997. Basic and diluted earnings per share were \$.39 compared to \$.37 in the same period last year.

Financial Condition

Assets totaled \$1.0 billion at March 29, 1998, an increase of 3.8% over the \$967.2 million at December 28, 1997. Working capital increased \$8.9 million during the three-month period. The current ratio was 1.9 at March 29, 1998 and December 28, 1997.

During the first three months of 1998, net cash from operating activities was \$58.5 million, an increase of 36% over the comparable period in 1997. This increase resulted principally from increases in net earnings and accrued liability balances, along with a containment on the growth of accounts receivable. Capital expenditures of \$7.0 million in 1998 and \$6.1 million in 1997 were principally for expanding and improving the worldwide branch network and developing new information systems.

The quarterly dividend rate applicable to Class A and Class B shares outstanding was \$.22 per share in the first quarter of 1998. This represents a 5% increase compared to a dividend rate of \$.21 per share in the first quarter of 1997.

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.

New Accounting Standard

Effective December 29, 1997, the Company adopted Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income". This Statement establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is comprised of net earnings and other comprehensive income. Foreign currency adjustments represent the only component of other comprehensive income.

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report relate to future events that are 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 the report and in the Company's filings with the Securities and Exchange Commission. 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., 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., 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 (Switzerland) 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 fornitura di lavaro 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) A report on Form 8-K dated January 3, 1998 was filed by the Company in January, 1998. The report was filed under Item 1 of Form 8-K, changes in control of registrant.

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 12, 1998

/s/ William K. Gerber
William K. Gerber

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).	
11	Additional Earnings Per Share Information.	2
27.1	Financial Data Schedule for three months ended March 29, 1998.	3
27.2	Restated Financial Data Schedule for three months ended March 30, 1997.	4

ADDITIONAL EARNINGS PER SHARE INFORMATION

Kelly Services, Inc. and Subsidiaries

Details of the common shares used to compute earnings per share are as follows in thousands except per share items:

	13 Weeks Ended	
	March 29, 1998	March 30, 1997
	-----	-----
Weighted average shares outstanding	38,177	38,061
Adjustment for dilutive shares from stock options under the treasury stock method		
Shares assumed issued	1,335	479
Less - Shares assumed repurchased	(1,128)	(425)
	-----	-----
Additional shares assumed outstanding	207	54
	-----	-----
Applicable shares as adjusted	38,384	38,115
	=====	=====
Net earnings	\$15,064	\$14,228
	=====	=====
Diluted earnings per common share	\$.39	\$.37
	====	====

This calculation is submitted in accordance with Regulation S-K item 601(b)(11).

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		
	JAN-03-1999		
	MAR-29-1998		
		115,493	
		67,628	
		582,466	
		11,830	
		0	
	809,753		
		181,087	
		67,602	
	1,004,007		
	437,268		
		0	
	0		
		0	
		40,116	
		526,623	
1,004,007			
		0	
	959,382		
		0	
		791,472	
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		0	
		0	
		25,534	
		10,470	
	15,064		
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		0	
		15,064	
		.39	
		.39	

