

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 October 1, 1995

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 November 6, 1995, 34,414,227 shares of Class A and 3,598,657 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	
	Oct. 1, 1995	Oct. 2, 1994	Oct. 1, 1995	Oct. 2, 1994
Sales of services	\$698,453	\$630,196	\$1,971,555	\$1,731,200
Cost of services	555,968	505,668	1,574,374	1,395,135
Gross profit	142,485	124,528	397,181	336,065
Selling, general and administrative expenses	111,125	95,070	323,219	271,605
Earnings from operations	31,360	29,458	73,962	64,460
Interest income	1,798	1,661	6,508	4,832
Earnings before income taxes	33,158	31,119	80,470	69,292
Income taxes:				
Federal	10,285	9,440	25,180	20,960
State and other	2,500	2,390	5,995	5,390
Total income taxes	12,785	11,830	31,175	26,350
Net earnings	\$ 20,373	\$ 19,289	\$ 49,295	\$ 42,942
Earnings per share	\$.54	\$.51	\$1.30	\$1.13
Dividends per share	\$.20	\$.18	\$.58	\$.52
Average shares outstanding (thousands)	38,005	37,960	37,986	37,954

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF OCTOBER 1, 1995 AND JANUARY 1, 1995
(UNAUDITED)
(In thousands of dollars)

ASSETS	1995	1994

CURRENT ASSETS:		
Cash and equivalents	\$ 41,370	\$ 49,207
Short-term investments	95,265	142,723
Accounts receivable, less allowances of \$8,265 and \$5,660, respectively	387,153	307,478
Prepaid expenses and other current assets	26,126	27,018
	-----	-----
Total current assets	549,914	526,426
PROPERTY AND EQUIPMENT:		
Land and buildings	35,106	34,044
Equipment, furniture and leasehold improvements	115,480	90,868
Accumulated depreciation	(69,235)	(54,731)
	-----	-----
Total property and equipment	81,351	70,181
INTANGIBLES AND OTHER ASSETS	61,962	45,491
	-----	-----
TOTAL ASSETS	\$693,227	\$642,098
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable	\$ 40,320	\$ 33,716
Payroll and related taxes	126,965	102,911
Accrued insurance	48,147	57,390
Income and other taxes	13,430	16,565
	-----	-----
Total current liabilities	228,862	210,582
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,103 shares in 1995 and 2,153 shares in 1994, respectively, at cost	(6,330)	(6,186)
Paid-in capital	7,170	5,868
Earnings invested in the business	423,409	391,718
	-----	-----
Total stockholders' equity	464,365	431,516
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$693,227	\$642,098
	=====	=====

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended		39 Weeks Ended	
	Oct. 1, 1995	Oct. 2, 1994	Oct. 1, 1995	Oct. 2, 1994
Capital Stock				
Class A common stock				
Balance at beginning of period	\$ 36,511	\$ 36,507	\$ 36,507	\$ 36,507
Conversions from Class B	--	--	4	--
Balance at end of period	36,511	36,507	36,511	36,507
Class B common stock				
Balance at beginning of period	3,605	3,609	3,609	3,609
Conversions to Class A	--	--	(4)	--
Balance at end of period	3,605	3,609	3,605	3,609
Treasury Stock				
Balance at beginning of period	(6,181)	(6,138)	(6,186)	(6,702)
Exercise of stock options	(155)	(45)	(185)	(10)
Restricted stock awards	6	--	41	--
Treasury stock issued for acquisition	--	--	--	529
Balance at end of period	(6,330)	(6,183)	(6,330)	(6,183)
Paid-in Capital				
Balance at beginning of period	6,638	5,736	5,868	679
Exercise of stock options	475	82	948	336
Restricted stock awards	57	--	354	--
Treasury stock issued for acquisition	--	--	--	4,803
Balance at end of period	7,170	5,818	7,170	5,818
Earnings Invested in the Business				
Balance at beginning of period	411,040	364,876	391,718	352,126
Net earnings	20,373	19,289	49,295	42,942
Cash dividends	(7,603)	(6,833)	(22,036)	(19,737)
Equity adjustment for foreign currency translation (cumulative credit of \$3,024 in 1995 and charge of \$2,785 in 1994)	(401)	1,727	4,432	3,728
Balance at end of period	423,409	379,059	423,409	379,059
Stockholders' Equity at end of period	\$464,365	\$418,810	\$464,365	\$418,810

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(UNAUDITED)

FOR THE 39 WEEKS ENDED OCTOBER 1, 1995 AND OCTOBER 2, 1994

(In thousands of dollars)

	1995	1994
	-----	-----
Cash flows from operating activities:		
Net earnings	\$49,295	\$42,942
Noncash adjustments:		
Depreciation	14,504	13,140
Changes in certain working capital components	(58,049)	(24,797)
Net cash from operating activities	5,750	31,285
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(24,931)	(13,039)
Short-term investments	47,458	11,816
Increase in intangibles and other assets	(15,236)	(11,936)
Net cash from investing activities	7,291	(13,159)
	-----	-----
Cash flows from financing activities:		
Dividend payments	(22,036)	(19,737)
Exercise of stock options and restricted stock awards	1,158	326
Net cash from financing activities	(20,878)	(19,411)
	-----	-----
Net change in cash and equivalents	(7,837)	(1,285)
Cash and equivalents at beginning of period	49,207	36,020
	-----	-----
Cash and equivalents at end of period	\$41,370	\$34,735
	=====	=====

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 1995 totaled \$698,453,000, an increase of 10.8% from the same period in 1994. Modest growth in domestic sales, at less than 10% over the same period in 1994, reflected slowed economic conditions in the United States and management's continued challenging of low yielding, higher risk light industrial business. International sales continued to grow at double digit rates, with the United Kingdom and French companies posting significant increases for the quarter.

Cost of services, consisting of payroll and related costs of employees assigned to customers, increased 9.9% in the third quarter as compared to the same period in 1994. Average hourly wages and related costs increased almost 6% from 1994 due to inflation and a shift in business mix toward higher margin service lines.

Gross profit of \$142,485,000 was 14.4% higher than 1994 due to both increased volume and gross profit rates which, combined, averaged 20.4% compared to 19.8% in 1994. This increased rate of gross profit was related principally to a greater mix of sales in higher margin service lines, such as office and technical. Strong growth of international sales carrying higher gross profit rates also contributed to the overall increase in margins.

Selling, general and administrative expenses were \$111,125,000 in the third quarter, an increase of 16.9% over the same period in 1994. As a percent of sales, the spending rate averaged 15.9%, or .8 percentage point over last year's third quarter. This increase resulted from expected growth in business activity, increased national advertising costs related to promoting the introduction of new customer products and services, inclusion of newly acquired operations, and continued aggressive investments in new service lines and programs, which promote and improve service quality and customer satisfaction.

Earnings before income taxes were \$33,158,000, an increase of 6.6%, compared to pretax earnings of \$31,119,000 for the same period in 1994. The pretax margin was 4.7%, a .2 percentage point decrease from the third quarter of 1994. The increased rate of expense spending noted above was the principal reason for the decline in the return on pretax earnings.

Income taxes were 38.6% of pretax income, which was a .6 percentage point increase over the applicable tax rate for the third quarter of 1994, due to reduced credits available from the U.S. targeted jobs tax credit program. The program was discontinued effective January 1, 1995.

Net earnings were \$20,373,000 in the third quarter of 1995, an increase of 5.6% over the third quarter of 1994. Earnings per share were \$.54 compared to the \$.51 in the same period last year.

Year-to-Date

Sales of services totaled \$1,971,555,000 during the first nine months of 1995, an increase of 13.9% over 1994. This increase reflects continued growth in the volume of domestic and especially international sales, particularly in Europe. Sales of OK Personnel Holding SA in Switzerland (completed July, 1994) and The Wallace Law Registry, Inc. (purchased as of April, 1995) are included with 1995 sales.

Cost of services of \$1,574,374,000 was 12.8% higher than last year, reflecting volume growth, acquisitions, modest inflationary increases in hourly payroll costs and a shift towards higher margin service lines.

Gross profit increased 18.2% in 1995 due to increased sales volume, acquisitions, and a rate of gross profit that averaged 20.1% for the first nine months of 1995 compared to the 19.4% rate of 1994. This change reflects the increased mix of business in higher margin service lines such as office and technical, plus strong sales growth in international operations.

Selling, general and administrative expenses of \$323,219,000 were 19.0% higher than last year, reflecting higher business activity, the acquisition of new businesses and investments in new programs.

Earnings before taxes were \$80,470,000, an increase of 16.1% over 1994. These earnings averaged a pretax margin of 4.1%, or .1 percentage point improvement over 1994. Income taxes were 38.7% of pretax earnings and were .7 percentage point higher than last year's first nine months' income tax rate. As explained above, the elimination of the U.S. targeted jobs tax credit, effective January 1, 1995, is the principal reason for this rate increase.

Net earnings were \$49,295,000, or 14.8% higher than the first nine months of 1994. Earnings per share were \$1.30 compared to \$1.13 last year.

Financial Condition

Assets totaled \$693,227,000 at October 1, 1995, an increase of 8% over the \$642,098,000 at January 1, 1995. Working capital increased \$5,208,000 during the nine-month period. The current ratio was 2.4 at October 1, 1995, a decline of .1 percentage point since January 1. Increased business activity and capital expenditures, including the acquisition of The Wallace Law Registry, Inc. during the second quarter of 1995, accounted for the change. Enhancements to automated systems in all branches continue to be made and were a major element of capital spending.

The quarterly dividend rate applicable to Class A and Class B common shares outstanding was \$.20 per share in the third quarter of 1995. This compares to a dividend rate of \$.18 per share in the third quarter of 1994.

Management believes the financial condition of the Company continues to be exceptionally strong, which enables it to fund working capital requirements and longer-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. and The Wallace Law Registry, 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.

- (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 10, 1995

/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.)	
27	Financial Data Schedule	2

