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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

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**  
(State or other jurisdiction  
of incorporation or organization)

**38-1510762**  
(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At November 2, 2007, 32,626,889 shares of Class A and 3,459,385 shares of Class B common stock of the Registrant were outstanding.

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KELLY SERVICES, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## KELLY SERVICES, INC. AND SUBSIDIARIES

## STATEMENTS OF EARNINGS

(UNAUDITED)

(In thousands of dollars except per share data)

	13 Weeks Ended		39 Weeks Ended	
	Sept. 30, 2007	Oct. 1, 2006	Sept. 30, 2007	Oct. 1, 2006
Revenue from services	\$ 1,425,298	\$ 1,396,911	\$ 4,191,830	\$ 4,125,402
Cost of services	1,178,419	1,166,061	3,468,177	3,458,168
Gross profit	246,879	230,850	723,653	667,234
Selling, general and administrative expenses	226,099	207,870	670,114	611,494
Earnings from operations	20,780	22,980	53,539	55,740
Other income, net	587	348	2,190	853
Earnings from continuing operations before taxes	21,367	23,328	55,729	56,593
Income taxes	6,685	6,893	20,478	20,136
Earnings from continuing operations	14,682	16,435	35,251	36,457
Earnings from discontinued operations, net of tax	459	1,383	7,134	2,592
Net earnings	\$ 15,141	\$ 17,818	\$ 42,385	\$ 39,049
Basic earnings per share:				
Earnings from continuing operations	\$ 0.40	\$ 0.46	\$ 0.96	\$ 1.01
Earnings from discontinued operations	0.01	0.04	0.20	0.07
Net earnings	\$ 0.41	\$ 0.49	\$ 1.16	\$ 1.09
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.40	\$ 0.45	\$ 0.96	\$ 1.01
Earnings from discontinued operations	0.01	0.04	0.19	0.07
Net earnings	\$ 0.41	\$ 0.49	\$ 1.15	\$ 1.08
Dividends per share	\$ .135	\$ .125	\$ .385	\$ .325
Average shares outstanding (thousands):				
Basic	36,500	35,997	36,557	35,937
Diluted	36,537	36,225	36,843	36,226

See accompanying Notes to Financial Statements.

## KELLY SERVICES, INC. AND SUBSIDIARIES

**BALANCE SHEETS**

(UNAUDITED)

(In thousands of dollars except share items)

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 102,982	\$ 118,428
Trade accounts receivable, less allowances of \$18,357 and \$16,818, respectively	903,566	838,246
Prepaid expenses and other current assets	49,734	45,316
Deferred taxes	30,342	29,543
Total current assets	1,086,624	1,031,533
<b>PROPERTY AND EQUIPMENT:</b>		
Land and buildings	62,706	61,410
Equipment, furniture and leasehold improvements	342,196	311,244
Accumulated depreciation	(229,796)	(202,366)
Net property and equipment	175,106	170,288
NONCURRENT DEFERRED TAXES	37,458	35,437
GOODWILL, NET	122,917	96,504
OTHER ASSETS	147,570	135,662
TOTAL ASSETS	<u>\$ 1,569,675</u>	<u>\$ 1,469,424</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings	\$ 75,489	\$ 68,928
Accounts payable	161,843	132,819
Accrued payroll and related taxes	286,056	274,284
Accrued insurance	25,495	24,191
Income and other taxes	65,073	68,055
Total current liabilities	613,956	568,277
<b>NONCURRENT LIABILITIES:</b>		
Accrued insurance	59,489	57,277
Accrued retirement benefits	81,249	71,990
Other long-term liabilities	17,865	13,323
Total noncurrent liabilities	158,603	142,590
<b>STOCKHOLDERS' EQUITY:</b>		
Capital stock, \$1.00 par value		
Class A common stock, shares issued 36,633,906 at 2007 and 36,632,768 at 2006	36,634	36,633
Class B common stock, shares issued 3,481,960 at 2007 and 3,483,098 at 2006	3,482	3,483
Treasury stock, at cost		
Class A common stock, 3,922,450 shares at 2007 and 3,698,781 at 2006	(83,723)	(78,241)
Class B common stock, 22,575 shares at 2007 and 2006	(600)	(600)
Paid-in capital	33,406	32,048
Earnings invested in the business	763,577	735,104
Accumulated other comprehensive income	44,340	30,130
Total stockholders' equity	797,116	758,557
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,569,675</u>	<u>\$ 1,469,424</u>

See accompanying Notes to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
(UNAUDITED)  
(In thousands of dollars)

	13 Weeks Ended		39 Weeks Ended	
	Sept. 30, 2007	Oct. 1, 2006	Sept. 30, 2007	Oct. 1, 2006
<b>Capital Stock</b>				
Class A common stock				
Balance at beginning of period	\$ 36,633	\$ 36,629	\$ 36,633	\$ 36,620
Conversions from Class B	<u>1</u>	<u>—</u>	<u>1</u>	<u>9</u>
Balance at end of period	36,634	36,629	36,634	36,629
Class B common stock				
Balance at beginning of period	3,483	3,487	3,483	3,496
Conversions to Class A	<u>(1)</u>	<u>—</u>	<u>(1)</u>	<u>(9)</u>
Balance at end of period	3,482	3,487	3,482	3,487
<b>Treasury Stock</b>				
Class A common stock				
Balance at beginning of period	(71,454)	(86,735)	(78,241)	(90,319)
Exercise of stock options, restricted stock awards and other	231	670	7,018	4,254
Purchase of treasury stock	<u>(12,500)</u>	<u>—</u>	<u>(12,500)</u>	<u>—</u>
Balance at end of period	(83,723)	(86,065)	(83,723)	(86,065)
Class B common stock				
Balance at beginning of period	(600)	(600)	(600)	(600)
Exercise of stock options, restricted stock awards and other	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at end of period	(600)	(600)	(600)	(600)
<b>Paid-in Capital</b>				
Balance at beginning of period	32,112	27,250	32,048	27,015
Exercise of stock options, restricted stock awards and other	<u>1,294</u>	<u>1,705</u>	<u>1,358</u>	<u>1,940</u>
Balance at end of period	33,406	28,955	33,406	28,955
<b>Earnings Invested in the Business</b>				
Balance at beginning of period	753,409	701,997	735,104	688,033
Adoption of FIN 48	—	—	332	—
Net earnings	15,141	17,818	42,385	39,049
Dividends	<u>(4,973)</u>	<u>(4,566)</u>	<u>(14,244)</u>	<u>(11,833)</u>
Balance at end of period	763,577	715,249	763,577	715,249
<b>Accumulated Other Comprehensive Income</b>				
Balance at beginning of period	36,733	26,183	30,130	7,798
Foreign currency translation adjustments, net of tax	8,857	(428)	15,953	9,949
Unrealized (losses) gains on investments, net of tax	<u>(1,250)</u>	<u>1,027</u>	<u>(1,743)</u>	<u>9,035</u>
Balance at end of period	44,340	26,782	44,340	26,782
<b>Stockholders' Equity at end of period</b>	<u><b>\$797,116</b></u>	<u><b>\$724,437</b></u>	<u><b>\$797,116</b></u>	<u><b>\$724,437</b></u>
<b>Comprehensive Income</b>				
Net earnings	\$ 15,141	\$ 17,818	\$ 42,385	\$ 39,049
Foreign currency translation adjustments, net of tax	8,857	(428)	15,953	9,949
Unrealized (losses) gains on investments, net of tax	<u>(1,250)</u>	<u>1,027</u>	<u>(1,743)</u>	<u>9,035</u>
Comprehensive Income	<u><b>\$ 22,748</b></u>	<u><b>\$ 18,417</b></u>	<u><b>\$ 56,595</b></u>	<u><b>\$ 58,033</b></u>

See accompanying Notes to Financial Statements.

## KELLY SERVICES, INC. AND SUBSIDIARIES

**STATEMENTS OF CASH FLOWS**

(UNAUDITED)

(In thousands of dollars)

	39 Weeks Ended	
	Sept. 30, 2007	Oct. 1, 2006
Cash flows from operating activities:		
Net earnings	\$ 42,385	\$ 39,049
Noncash adjustments:		
Depreciation and amortization	31,051	30,949
Provision for bad debts	4,926	3,981
Stock-based compensation	2,683	3,913
Gain on sale of discontinued operations	(6,166)	—
Other, net	(422)	(99)
Changes in operating assets and liabilities	(24,808)	(18,679)
Net cash from operating activities	49,649	59,114
Cash flows from investing activities:		
Capital expenditures	(33,567)	(26,111)
Proceeds from sale of discontinued operations	12,500	—
Acquisition of companies, net of cash received	(25,255)	(4,531)
Other investing activities	(586)	(541)
Net cash from investing activities	(46,908)	(31,183)
Cash flows from financing activities:		
Net decrease in revolving line of credit	(3,469)	(5,369)
Proceeds from short-term debt	8,223	5,080
Dividend payments	(14,244)	(11,833)
Purchase of treasury stock	(12,500)	—
Stock options and other stock sales	5,760	1,683
Other financing activities	(5,767)	(4,504)
Net cash from financing activities	(21,997)	(14,943)
Effect of exchange rates on cash and equivalents	3,810	806
Net change in cash and equivalents	(15,446)	13,794
Cash and equivalents at beginning of period	118,428	63,699
Cash and equivalents at end of period	<u>\$102,982</u>	<u>\$ 77,493</u>

See accompanying Notes to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

**NOTES TO FINANCIAL STATEMENTS**

(UNAUDITED)

(In thousands of dollars except share and per share items)

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of Kelly Services, Inc. (the "Company," "Kelly," "we" or "us") have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and notes required by generally accepted accounting principles for complete financial statements. All adjustments, including normal recurring adjustments, have been made which, in the opinion of management, are necessary for a fair statement of the results of the interim periods. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the fiscal year ended December 31, 2006, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2007 (the 2006 consolidated financial statements).

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. In addition, the consolidated financial statements include, from the date of acquisition, the Company's majority-owned subsidiaries in China acquired during the second quarter of 2007. The Company consolidates the Chinese companies and records an adjustment in other income, net in the Company's statement of earnings to reflect the portion of the earnings, net of tax, attributable to the minority shareholders. The accumulated minority interest from the date of acquisition is included in other long-term liabilities on the Company's balance sheet. All significant intercompany balances and transactions have been eliminated.

Certain prior year amounts have been reclassified to conform with the current presentation. The results of operations related to the 2006 fourth quarter disposition of Kelly Staff Leasing and the 2007 first quarter disposition of Kelly Home Care have been reclassified and separately stated in the accompanying consolidated financial statements of earnings for the 13 weeks ended September 30, 2007 and October 1, 2006 and the 39 weeks ended September 30, 2007 and October 1, 2006. The assets and liabilities of these discontinued operations have not been reclassified in the accompanying consolidated balance sheets and related notes. The cash flows from discontinued operations are not separately classified in the Company's consolidated statements of cash flows. Additionally, the Company has realigned its operations into four reporting segments, as disclosed in Note 9. Prior periods have been reclassified to conform with the current presentation.

**2. Acquisitions**

As part of the Company's strategy to diversify and expand its global operations, Kelly completed three acquisitions during the first nine months of 2007. Effective March 23, 2007, the Company acquired Talents Czech s.r.o. and Talents Polska Spolka z o.o., ("Talents Technology"), permanent placement and executive search firms with operations in the Czech Republic and Poland, for \$3,058 in cash. The transaction also includes additional contingent earnout payments of up to \$1,600 over the next three years, based primarily on the achievement of certain earnings targets. Talents Technology is included as a business unit in the International - PTSA business segment of the Company from the date of acquisition.

Effective March 31, 2007, the Company acquired CGR/seven LLC, a creative services staffing firm located in New York, for \$12,000 in cash at the date of acquisition and \$1,000 payable in each of the years 2008 and 2009, and possible additional earnout payments of up to \$2,000 payable in each of the years 2008 and 2009, based primarily on the achievement of certain earnings targets. CGR/seven specializes in providing creative talent and placing professionals with design, publishing, marketing, fashion and media companies in the New York, New Jersey and Connecticut markets, and is included in the Company's Americas - PTSA business segment.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**2. Acquisitions (continued)**

Effective May 30, 2007, the Company acquired P-Serv Pte Ltd ("P-Serv"), a company specializing in temporary staffing, permanent staffing, outsourcing and executive search, with operations in China, Hong Kong and Singapore, for \$8,057 in cash. As part of this transaction, Kelly acquired a 70% ownership interest in two permanent placement staffing joint ventures in China. Shanghai Changning Personnel Co., Ltd. and Nanchang Personnel Co., Ltd. maintain 30% minority interests in the two joint ventures.

The transaction also includes additional contingent earnout payments of up to \$2,612 in total, payable in 2009 and 2010, based primarily on the achievement of certain earnings targets. P-Serv is included as a business unit in the International – Commercial business segment of the Company from the date of acquisition. The purchase price allocation for this acquisition is preliminary and could change, subject to the completion of the asset valuation, which is ongoing as of the date of this filing. Although the Company has not completed its valuation of the P-Serv acquisition as of the date of this filing, it does not believe that the amortization of intangible assets would be material to its results of operations for the quarter or nine months ended September 30, 2007.

Proforma financial information related to the three acquisitions is not presented due to immateriality. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of the above acquisitions.

Current assets	\$ 4,700
Goodwill	18,659
Identified intangibles	4,615
Other noncurrent assets	244
Current liabilities	(1,754)
Non current liabilities	(90)
<b>Total purchase price</b>	<b><u>\$26,374</u></b>

Included in the assets purchased was \$3,906 of intangible assets associated with customer lists. These assets will be amortized over 10 years and will have no residual value. All contingent earnout payments related to acquisitions will be recorded as additional goodwill. Goodwill associated with the CGR/seven LLC transaction is expected to be deductible for tax purposes.

During the second quarter of 2006, the Company acquired the net operating assets of The Ayers Group for \$4,600 in cash. The transaction included additional contingent earnout payments of up to \$1,333, payable over two years, based primarily on the achievement of certain earnings targets.



KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**3. Discontinued Operations**

Effective March 31, 2007, the Company sold its Kelly Home Care (“KHC”) business unit, part of the Americas - PTSA segment, to ResCare, Inc. for \$12,500 and recognized a pre-tax gain on sale of \$10,153 (\$6,166 net of tax). The sale of KHC was an important part of the Company’s strategy of reviewing existing operations, selectively divesting non-core assets and reinvesting the proceeds in strategic growth initiatives.

In accordance with the provisions of Statement of Financial Accounting Standard (“SFAS”) No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets,” the gain recognized in conjunction with the sale of KHC, as well as the results of operations for the current and prior periods, have been reported as discontinued operations in the Company’s statements of earnings. Additionally, the results of operations for Kelly Staff Leasing (“KSL”), previously part of the Americas – PTSA segment and which the Company sold in the fourth quarter of 2006, have also been reported as discontinued operations in the Company’s statements of earnings. The components of earnings from discontinued operations, net of tax are as follows:

	<u>13 Weeks Ended</u>		<u>39 Weeks Ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue from services	\$ —	\$21,893	\$14,777	\$69,900
Operating income from discontinued operations	\$ 746	\$ 2,272	\$ 1,573	\$ 4,275
Less: Income taxes	<u>287</u>	<u>889</u>	<u>605</u>	<u>1,683</u>
Earnings from discontinued operations, net of tax	<u>459</u>	<u>1,383</u>	<u>968</u>	<u>2,592</u>
Gain on sale of discontinued operations	—	—	10,153	—
Less: Income taxes	<u>—</u>	<u>—</u>	<u>3,987</u>	<u>—</u>
Gain on sale of discontinued operations, net of tax	<u>—</u>	<u>—</u>	<u>6,166</u>	<u>—</u>
Discontinued operations, net of tax	<u>\$ 459</u>	<u>\$ 1,383</u>	<u>\$ 7,134</u>	<u>\$ 2,592</u>

In connection with the sale of KHC, \$878 of goodwill was allocated to KHC. The Company did not include in the sale KHC’s net trade accounts receivable of \$7,108 as of March 31, 2007 and retains the responsibility for collecting these amounts.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**4. Investment**

Effective March 30, 2007, the Company paid \$6,492 for the remaining shares of Tempstaff Kelly, Inc. ("Tempstaff Kelly"), a joint venture originally created with Sony Corporation and Tempstaff, one of the largest Japanese staffing companies. With the purchase of the remaining 51% ownership interest, Kelly increased its ownership interest to 100% and began directing all Tempstaff Kelly operations effective April 1, 2007. As a result, the assets and liabilities of Tempstaff Kelly, now a wholly owned subsidiary of the Company, were included in the Company's financial statements on a fully consolidated basis as of April 1, 2007. Tempstaff Kelly's operational results are included in the International - Commercial and International - PTSA business segments subsequent to April 1, 2007. Previously, the Company accounted for the investment under the equity method of accounting, where a proportionate share of Tempstaff Kelly's net income was recorded in other income, net in Kelly's statement of earnings.

During the first quarter of 2007, in connection with the purchase of the remaining 51% interest in Tempstaff Kelly, the Company obtained short-term financing utilizing an \$8,223 yen-denominated credit facility, \$1,731 of which was used to pay off an existing working capital loan. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date the company completed the acquisition. The purchase price below also reflects the cost of the 49% interest acquired in prior periods.

Current assets	\$ 5,733
Goodwill	8,595
Identified intangibles	2,637
Other noncurrent assets	359
Current liabilities	<u>(4,412)</u>
Total purchase price	<u>\$12,912</u>

Included in the assets purchased were \$2,637 of intangible assets associated with customer lists. These assets will be amortized over 10 years and will have no residual value. The goodwill associated with this transaction is not tax deductible for income tax purposes.

On October 2, 2006, the Company purchased Sony Corporation's interest in Tempstaff Kelly. In connection with this purchase, on September 29, 2006, the Company obtained short-term financing utilizing a \$5,080 yen-denominated credit facility. With the purchase of Sony Corporation's 40% ownership share, Kelly increased its ownership interest to 49%.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**5. Restructuring**

**UK Operations**

On January 24, 2007, the Chief Executive Officer of Kelly Services, Inc. authorized a restructuring plan for our United Kingdom operations ("Kelly UK"). The plan is the result of management's strategic review of the operations of Kelly UK which identified under-performing branch locations and the opportunity for additional operational cost savings.

As of September 30, 2007, Kelly UK has completed its restructuring actions and closed each of the 22 branches scheduled for closure, reached settlements with landlords for the UK headquarters locations and incurred \$154 and \$4,954, respectively, of restructuring charges associated with these actions in the 13 and 39 weeks ended September 30, 2007. These expenses are reported as a component of selling, general and administrative expenses in the International - Commercial segment. For the 13 weeks ended September 30, 2007, the \$154 charge includes \$137 for facility exit costs and \$17 for accelerated depreciation of leasehold improvements and personal property. For the 39 weeks ended September 30, 2007, the \$4,954 charge includes \$4,341 for facility exit costs and \$613 for accelerated depreciation. The Company did not incur any significant severance costs in connection with the restructuring.

In addition, the Company has incurred moving, fit out and lease origination fees related to the headquarters consolidation of \$799 and \$1,081, respectively, for the 13 and 39 weeks ended September 30, 2007. Total costs of the UK project were \$6,035.

**Americas Operations**

On July 23, 2007, the Chief Executive Officer of Kelly Services, Inc. authorized a restructuring plan for our Americas – Commercial branch operations. The plan is the result of management's strategic review of operations in the U.S. which identified under-performing branch locations. The plan will result in the closure of approximately 50 branch locations.

As of September 30, 2007, Americas – Commercial has closed 42 of the branches scheduled for closure and incurred \$1,511 of restructuring charges associated with these actions in the 13 and 39 weeks ended September 30, 2007. These expenses are reported as a component of selling, general and administrative expenses in the Americas - Commercial segment. For the 13 and 39 weeks ended September 30, 2007, the \$1,511 charge includes \$1,387 for facility exit costs and \$124 for accelerated depreciation of leasehold improvements and personal property. The Company plans to complete the restructuring actions in the fourth quarter of 2007. To complete the restructuring actions, we expect to incur additional facility exit costs of approximately \$519 and accelerated depreciation of \$75. We currently expect the total pre-tax facility exit costs and accelerated depreciation will be approximately \$2,105. The Company does not expect to incur any significant severance costs in connection with the restructuring.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**5. Restructuring (continued)**

Following is a summary of our balance sheet accrual related to the facility exit costs:

	<u>UK</u>	<u>Americas</u>	<u>Total</u>
Balance at beginning of year	\$ —	\$ —	\$ —
Additions charged to operations	2,226	—	2,226
Reductions for cash payments	<u>(1,088)</u>	<u>—</u>	<u>(1,088)</u>
Balance at April 1, 2007	<u>1,138</u>	<u>—</u>	<u>1,138</u>
Additions charged to operations	1,978	—	1,978
Reductions for cash payments	<u>(2,672)</u>	<u>—</u>	<u>(2,672)</u>
Balance at July 1, 2007	<u>444</u>	<u>—</u>	<u>444</u>
Additions charged to operations	137	1,387	1,524
Reductions for cash payments	<u>(375)</u>	<u>(1,195)</u>	<u>(1,570)</u>
Balance at September 30, 2007	<u>\$ 206</u>	<u>\$ 192</u>	<u>\$ 398</u>

**6. Goodwill**

The changes in the net carrying amount of goodwill for the 39 weeks ended September 30, 2007 and October 1, 2006 are as follows:

	<u>39 Weeks Ended</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of period	\$ 96,504	\$88,217
Acquisition of companies (See Notes 2 and 4)	27,291	3,003
Divestiture of company (See Note 3)	(878)	—
Translation adjustment (See Note 9)	—	3,372
Balance at end of period	<u>\$122,917</u>	<u>\$94,592</u>

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**7. Earnings Per Share**

The reconciliations of earnings per share computations for the 13-week and 39-week periods ended September 30, 2007 and October 1, 2006 were as follows:

	<u>13 Weeks Ended</u>		<u>39 Weeks Ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Earnings from continuing operations	\$14,682	\$16,435	\$35,251	\$36,457
Earnings from discontinued operations, net of tax	459	1,383	7,134	2,592
Net earnings	<u>\$15,141</u>	<u>\$17,818</u>	<u>\$42,385</u>	<u>\$39,049</u>
Determination of shares (thousands):				
Weighted average common shares outstanding	36,500	35,997	36,557	35,937
Effect of dilutive securities:				
Stock options	17	167	143	158
Restricted awards and other	20	61	143	131
Weighted average common shares outstanding - assuming dilution	<u>36,537</u>	<u>36,225</u>	<u>36,843</u>	<u>36,226</u>
<b>Basic earnings per share</b>				
Earnings from continuing operations	\$ .40	\$ .46	\$ .96	\$ 1.01
Earnings from discontinued operations	.01	.04	.20	.07
Net earnings	<u>\$ .41</u>	<u>\$ .49</u>	<u>\$ 1.16</u>	<u>\$ 1.09</u>
<b>Diluted earnings per share</b>				
Earnings from continuing operations	\$ .40	\$ .45	\$ .96	\$ 1.01
Earnings from discontinued operations	.01	.04	.19	.07
Net earnings	<u>\$ .41</u>	<u>\$ .49</u>	<u>\$ 1.15</u>	<u>\$ 1.08</u>

Stock options representing 1,218,000 and 754,000 shares, respectively, for the 13 weeks ended September 30, 2007 and October 1, 2006, and 479,000 and 793,000 shares, respectively, for the 39 weeks ended September 30, 2007 and October 1, 2006 were excluded from the computation of diluted earnings per share due to their anti-dilutive effect.

On August 8, 2007, Kelly's board of directors authorized the repurchase of up to \$50 million of the Company's outstanding Class A common shares over the next two years. The Company intends to repurchase shares under the program, from time to time, in the open market. During the third quarter of 2007, the Company repurchased 556 thousand Class A shares for \$12.5 million. A total of \$37.5 million remains available under the share repurchase program.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**8. Other Income, Net**

Included in Other income, net are the following:

	<u>13 Weeks Ended</u>		<u>39 Weeks Ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest income	\$ 1,223	\$ 915	\$ 3,737	\$ 2,178
Interest expense	(686)	(567)	(2,008)	(1,611)
Dividend income	—	—	424	266
Other income	50	—	37	20
Other income, net	<u>\$ 587</u>	<u>\$ 348</u>	<u>\$ 2,190</u>	<u>\$ 853</u>

**9. Segment Disclosures**

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the Company's chief operating decision maker to determine resource allocation and assess performance. Each reportable segment is managed by its own management team and reports to executive management. Effective with the first quarter of 2007, the Company realigned its operations into four reporting segments – (1) Americas - Commercial, (2) Americas - Professional, Technical and Staffing Alternatives ("Americas - PTSA"), (3) International - Commercial and (4) International - Professional, Technical and Staffing Alternatives ("International - PTSA"). The Americas include the U.S. operations, as well as Canada, Mexico and Puerto Rico, which were previously included in International. Corporate expenses that directly support the operating units have been allocated to the four segments. Additionally, goodwill was reallocated among the segments and is now denominated in the Company's reporting currency.

The following table presents information about the reported revenue from services and earnings from operations of the Company for the 13 weeks and 39 weeks ended September 30, 2007 and October 1, 2006. Prior periods have been reclassified to conform with the current presentation. Segment data presented are net of intersegment revenues. Asset information by reportable segment is not presented, since the Company does not produce such information internally.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
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**9. Segment Disclosures (continued)**

	<u>13 Weeks Ended</u>		<u>39 Weeks Ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue from Services:				
Americas - Commercial	\$ 682,534	\$ 723,762	\$2,063,559	\$2,176,961
Americas - PTSA	<u>277,859</u>	<u>273,482</u>	<u>812,922</u>	<u>830,982</u>
Total Americas	<u>960,393</u>	<u>997,244</u>	<u>2,876,481</u>	<u>3,007,943</u>
International - Commercial	412,292	362,187	1,168,924	1,013,698
International - PTSA	<u>52,613</u>	<u>37,480</u>	<u>146,425</u>	<u>103,761</u>
Total International	<u>464,905</u>	<u>399,667</u>	<u>1,315,349</u>	<u>1,117,459</u>
Consolidated Total	<u>\$1,425,298</u>	<u>\$1,396,911</u>	<u>\$4,191,830</u>	<u>\$4,125,402</u>
Earnings from Operations:				
Americas - Commercial	\$ 19,001	\$ 25,808	\$ 63,051	\$ 73,321
Americas - PTSA	<u>14,532</u>	<u>15,003</u>	<u>41,745</u>	<u>43,005</u>
Total Americas	<u>33,533</u>	<u>40,811</u>	<u>104,796</u>	<u>116,326</u>
International - Commercial	4,605	3,209	4,406	312
International - PTSA	<u>950</u>	<u>288</u>	<u>1,742</u>	<u>390</u>
Total International	<u>5,555</u>	<u>3,497</u>	<u>6,148</u>	<u>702</u>
Corporate Expense	<u>(18,308)</u>	<u>(21,328)</u>	<u>(57,405)</u>	<u>(61,288)</u>
Consolidated Total	<u>\$ 20,780</u>	<u>\$ 22,980</u>	<u>\$ 53,539</u>	<u>\$ 55,740</u>

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
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**10. Income Taxes**

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. Upon adoption of FIN 48, the Company recognized a \$332 increase in its retained earnings balance. After adoption of FIN 48, the Company's unrecognized tax benefits were \$6,159, the recognition of which would have a favorable effect of \$3,104 on the effective tax rate.

The Company recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision. As of January 1, 2007, accrued interest and penalties were \$1,891.

The Company files income tax returns in the U.S. and in various states and foreign countries. In the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2001.

The IRS is currently examining a 2001 refund claim. The Company and its subsidiaries have various other income tax returns in the process of examination, administrative appeals or litigation. The unrecognized tax benefit and related interest and penalty balances at January 1, 2007 included approximately \$3,000 related to tax positions which were reasonably possible to change within the next twelve months due to income tax audits, settlements and statute expirations.

During the second quarter of 2007, \$2,000 was paid in connection with an amended 2005 federal tax return.

During the third quarter of 2007, the Company's uncertain tax positions were reduced by approximately \$350, primarily due to the closing of audits and the expiration of statutes of limitation. The unrecognized tax benefit and related interest and penalty balances at the end of the third quarter of 2007 include approximately \$1,450 related to tax positions which are reasonably possible to change within the next twelve months due to income tax audits, settlements and statute expirations.

There have been no other significant changes to unrecognized tax benefits in the third quarter of 2007.

The effective income tax rate on continuing operations in the third quarter of 2007 was 31.3%, an increase from last year's rate of 29.5% for the third quarter. The increase is primarily due to favorable resolution of an income tax audit in the third quarter of 2006, partially offset by the reinstatement of Work Opportunity Tax credits this year. The effective income tax rate on continuing operations for the first nine months of 2007 was 36.7%, an increase from the 35.6% rate for the first nine months of 2006. The majority of the increase in the year-to-date effective tax rate is a result of an increase in losses in certain international locations, particularly the UK, for which no income tax benefit is provided. This was partially offset by the benefit of the Work Opportunity Tax credit which was not reinstated until the fourth quarter of 2006.



KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
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**11. Contingencies**

In November 2003, an action was commenced in the United States Bankruptcy Court for the Southern District of New York, Enron Corp. ("Enron") v. J.P. Morgan Securities, Inc., et al., against approximately 100 defendants, including Kelly Properties, Inc., a wholly-owned subsidiary of Kelly Services, Inc., who invested in Enron's commercial paper. The Complaint alleges that Enron's October 2001 buyback of its commercial paper is a voidable preference under the bankruptcy laws, constitutes a fraudulent conveyance, and that the Company received prepayment of approximately \$10,000, \$5,000 of which is related to Enron commercial paper purchased by the Company from Lehman Brothers or its affiliate, Lehman Commercial Paper, Inc. ("Lehman"), and \$5,000 of which was purchased by the Company from Goldman Sachs & Co. Solely to avoid the cost of continued litigation, the Company has reached a confidential settlement with Enron, Lehman and certain other defendants of all claims arising from the Company's purchase of Enron commercial paper from Lehman. The settlement, which involves a payment by the Company in an amount not material to our results of operations or financial position, was approved on July 27, 2007 by the Bankruptcy Court presiding over the matter. The settlement became final on August 7, 2007. The terms of the settlement did not have a material adverse effect on our results of operation or financial position. The Company intends to continue to vigorously defend the remaining claims arising from the purchase of Enron commercial paper from Goldman Sachs & Co., and the Company believes it has meritorious defenses to these remaining claims but is unable to predict the outcome of the proceedings.

The Company is the subject of a putative class action lawsuit brought on behalf of employees working in the State of California. The claims in the lawsuit relate to alleged misclassification of personal attendants as exempt and not entitled to overtime under state law and alleged technical violations of a state law pertaining to information furnished on employee pay stubs. A hearing relating to plaintiffs' motion for class certification was held on March 5, 2007, and on April 30, 2007, the Court certified the class. As to the April 30 order, the Company has both filed with the trial court a motion for reconsideration and a writ with the California Court of Appeal seeking an interlocutory appeal. Because this matter is at a preliminary stage, the Company is not presently able to estimate the amount of damages, if any, that may arise from this matter.

The Company is also subject to various legal proceedings and claims which arise in the ordinary course of its business. These legal proceedings and claims are subject to many uncertainties, the outcome of which is not predictable with assurance and it is reasonably possible that some matters could be decided unfavorably to the Company. Although the amount of the ultimate liability with respect to these matters cannot be ascertained, the Company believes that any resulting liability will not be material to the financial condition of the Company.

KELLY SERVICES, INC. AND SUBSIDIARIES  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
(UNAUDITED)  
(In thousands of dollars except share and per share items)

**12. New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company will be required to adopt FAS No. 157 in the first quarter of fiscal year 2008. The standard is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115” (“FAS 159”). FAS 159 permits entities to elect to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The provisions of this standard will be effective for the Company’s 2008 fiscal year. The standard is not expected to have a material impact on the Company’s consolidated financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Executive Overview

During the third quarter, we made good progress with our strategic plan to diversify geographically, invest in high-growth, high-margin businesses and accelerate globalization of our professional and technical staffing services. Reflecting confidence in our strategic course, we took two important steps this quarter:

- In August, Kelly's board of directors authorized the repurchase of up to \$50 million of our Company's outstanding Class A common shares over the next two years.
- We also increased the quarterly dividend by 8%. Kelly has now paid a quarterly dividend for 45 consecutive years.

Currently our greatest challenge remains the U.S. staffing market, where we do nearly two-thirds of our business. The U.S. labor market has slowed since the beginning of the year, with declines in temporary employment hitting the U.S. staffing market particularly hard. Declines in temporary employment occurred in 11 out of the last 12 months, and the U.S. penetration rate for temporary labor has been on a downward trend since peaking in December 2006.

However, despite the soft labor market in the U.S., global demand for highly skilled, credentialed temporary workers continues. In fact, our PTSA business is strengthening in both the Americas and International markets. This quarter, we added more than 20 PTSA branches in growing markets around the world to meet the need for engineers, IT professionals, scientific staff and other highly skilled workers. This growth is also supporting our successful expansion efforts into higher margin and fee-based businesses.

We plan to continue to reduce our U.S. dependency, gain greater scale internationally, accelerate PTSA staffing globally, increase our fee-based business, acquire new, complimentary businesses for our portfolio, carefully manage expenses, improve operating margins and position Kelly for long-term growth.

### Results of Operations Third Quarter

Revenue from services in the third quarter of 2007 totaled \$1.425 billion, an increase of 2.0% from the same period in 2006. This was the result of an increase in average hourly bill rates of 6.7%, partially offset by a decrease in hours worked of 4.9%. Fee based income, which is included in revenue from services, totaled \$35.7 million, or 2.5% of total revenue, for the third quarter of 2007, an increase of 26.7% as compared to \$28.1 million in the third quarter of 2006. Reflecting the economic slowdown in the U.S. market, revenue for the quarter decreased in the Americas - Commercial business segment and increased slightly in the Americas - Professional Technical and Staffing Alternatives ("Americas - PTSA") business segment. Revenue increased at double-digit rates in both the International - Commercial and International - Professional, Technical and Staffing Alternatives ("International - PTSA") business segments.

Compared to the third quarter of 2006, the U.S. dollar was weaker against many foreign currencies, including the euro, the British pound and the Canadian dollar. As a result, our consolidated U.S. dollar translated revenue was slightly higher than would have otherwise been reported. On a constant currency basis, third quarter revenue decreased 0.6% as compared with the prior year. When we use the term "constant currency," it means that we have translated financial data for 2007 into U.S. dollars using the same foreign currency exchange rates that we used to translate financial data for 2006. Management believes constant currency measurements are an important analytical tool to aid in understanding underlying operating trends without distortion due to currency fluctuations. The table below summarizes the impact of foreign exchange adjustments on third quarter revenue:

	Third Quarter Revenue		
	2007	2006	% Change
	(In millions of dollars)		
Revenue from Services - Constant Currency:			
Americas - Commercial	\$ 678.3	\$ 723.8	(6.3) %
Americas - PTSA	277.6	273.5	1.5
Total Americas - Constant Currency	955.9	997.2	(4.1)
International - Commercial	383.4	362.2	5.8
International - PTSA	48.8	37.5	30.3
Total International - Constant Currency	432.2	399.7	8.1
Total Revenue from Services - Constant Currency	1,388.1	1,396.9	(0.6)
Foreign Currency Impact	37.2	—	
Revenue from Services	<u>\$1,425.3</u>	<u>\$1,396.9</u>	<u>2.0 %</u>

Gross profit of \$246.9 million was 6.9% higher than the gross profit of \$230.9 million for the same period of the prior year. The gross profit rate for the third quarter of 2007 was 17.3%, versus 16.5% for the third quarter of 2006. Compared to the prior year, the gross profit rate increased in all four business segments.

The improvement in the gross profit rate is primarily due to improved workers' compensation rates and growth in fee based income. Fee based income has a significant impact on gross profit rates. There are very low direct costs of services associated with fee based income. Therefore, increases or decreases can have a disproportionate impact on gross profit rates.

We regularly update our estimates of the ultimate costs of open workers' compensation claims. As a result, we reduced the estimated cost of prior year workers' compensation claims by \$2.8 million for the third quarter of 2007. This compares to a similar adjustment reducing prior year workers' compensation claims by \$1.0 million for the third quarter of 2006.

Selling, general and administrative expenses totaled \$226.1 million, an increase of 8.8% year over year. Selling, general and administrative expenses expressed as a percentage of revenue ("expense rate") were 15.9% in the third quarter of 2007, a 1.0 percentage point increase compared to the 14.9% rate in the third quarter of 2006. Included in selling, general and administrative expenses are \$2.5 million of expenses related to the Americas and UK restructuring actions. See the "Restructuring – UK Operations" and "Restructuring – Americas Operations" sections for further discussion. The remaining increase in selling, general and administrative expenses is due primarily to the growth in compensation related costs in all four business segments.

Earnings from operations in the third quarter of 2007 totaled \$20.8 million, a 9.6% decrease compared to earnings from operations of \$23.0 million reported for the third quarter of 2006. Included in earnings from operations are \$2.5 million of expenses related to the restructuring actions.

Other income, net in the third quarter of 2007 was \$0.6 million, compared to \$0.3 million for the same period last year. The change is primarily attributable to an increase in interest income related to higher interest rates and higher average cash balances, as compared to last year.

The effective income tax rate on continuing operations in the third quarter of 2007 was 31.3%, an increase from last year's rate of 29.5% for the third quarter. The increase is primarily due to a favorable resolution of an income tax audit in the third quarter of 2006, partially offset by the reinstatement of Work Opportunity Tax credits this year.

Earnings from continuing operations were \$14.7 million in the third quarter of 2007, compared to \$16.4 million in the third quarter of 2006. Included in earnings from continuing operations are \$1.9 million of expenses, net of tax, related to the restructuring actions.

During the first quarter of 2007, we sold the Kelly Home Care (“KHC”) business unit. Accordingly, third quarter 2006 results of operations were revised to remove KHC’s operating results from continuing operations. Additionally, third quarter 2006 results of operations were also revised to remove the operating results of Kelly Staff Leasing (“KSL”), which was sold in the fourth quarter of 2006. Earnings from discontinued operations, which include KHC’s and KSL’s operating results, totaled \$0.5 million for the third quarter of 2007, as compared to \$1.4 million in the third quarter of 2006.

Third quarter net earnings for 2007 totaled \$15.1 million, a decrease of 15.0% as compared to last year. Basic and diluted earnings per share from continuing operations for the third quarter of 2007 were \$0.40, as compared to basic and diluted earnings per share from continuing operations of \$0.46 and \$0.45, respectively, for the third quarter of 2006.

During the first quarter of 2007, the Company realigned its operations into four reporting segments – Americas - Commercial, Americas - PTSA, International - Commercial and International - PTSA. The Americas include the U.S. operations, as well as Canada, Mexico and Puerto Rico, which were previously included in International. In addition, corporate expenses that directly support the operating units have been allocated to all four segments. Prior periods were reclassified to conform with the current presentation.

#### **Americas - Commercial**

	Third Quarter		Change
	2007	2006	
	(in millions of dollars)		
Revenue from Services	\$682.5	\$723.8	(5.7) %
Earnings from Operations	19.0	25.8	(26.4)
Gross profit rate	15.7 %	15.4 %	0.3 %
Expense rate	13.0	11.9	1.1
Operating margin	2.8	3.6	(0.8)

Revenue from services in the Americas - Commercial segment totaled \$682.5 million in the third quarter of 2007, a 5.7% decrease compared to the \$723.8 million reported for the same period in 2006. This reflected a decrease in hours worked of 9.5%, partially offset by an increase in average hourly bill rates of 4.2%. Fee based income totaled \$4.9 million in the third quarter of 2007, a 5.5% decrease from the \$5.1 million in the third quarter of 2006. On a year-over-year basis, revenue decreased 4.9% in July, 6.4% in August and 5.9% in September. Americas - Commercial revenue represented 47.9% of total Company revenue in the third quarter of 2007 and 51.8% in the third quarter of 2006.

Americas - Commercial earnings from operations totaled \$19.0 million in the third quarter of 2007, as compared to third quarter earnings of \$25.8 million last year, reflecting a 0.8 percentage point decrease in the operating margin. This was driven by the 5.7% decrease in revenue and a 1.1 percentage point increase in the selling, general and administrative expense rate, partially offset by the 0.3 percentage point increase in the gross profit rate.

The increase in the gross profit rate reflected lower workers’ compensation costs. As noted above, the Company revised its estimate of the cost of outstanding workers’ compensation claims and, accordingly, reduced expense in the third quarter. Of the total \$2.8 million adjustment, \$2.5 million is reflected in the results of Americas – Commercial for the third quarter of 2007. The entire \$1.0 million adjustment in the third quarter of 2006 is reflected in the results of Americas – Commercial. The increase in selling, general and administrative expense rate was due to growth in compensation costs and \$1.5 million of US restructuring costs.

**Americas - PTSA**

	Third Quarter		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$277.9	\$273.5	1.6 %
Earnings from Operations	14.5	15.0	(3.1)
Gross profit rate	18.7 %	17.5 %	1.2 %
Expense rate	13.5	12.0	1.5
Operating margin	5.2	5.5	(0.3)

Revenue from services in the Americas - PTSA segment for the third quarter of 2007 totaled \$277.9 million, an increase of 1.6% compared to the \$273.5 million reported in the third quarter of 2006. This reflected a decrease in hours worked of 0.4%, partially offset by an increase in average billing rates of 2.4% for the professional and technical staffing businesses. Fee based income totaled \$8.2 million in the third quarter of 2007 and \$6.8 million in the third quarter of 2006, an increase of 20.0%. On a year-over-year basis, revenue increased 1.5% in July, 0.9% in August and 2.4% in September. Americas - PTSA revenue represented 19.5% of total Company revenue in the third quarter of 2007 and 19.6% in the third quarter of 2006.

Kelly Health Care, Kelly Management Services and HRfirst were the leading performers in revenue growth in the third quarter of 2007. Kelly IT Resources and Automotive Services Group reported year-over-year revenue declines in the third quarter of 2007.

Americas - PTSA earnings from operations for the third quarter of 2007 totaled \$14.5 million, a decrease of 3.1% from the same period in 2006, reflecting a 0.3 percentage point decrease in the operating margin. This was the result of a 1.5 percentage point increase in the selling, general and administrative expense rate, partially offset by a 1.2 percentage point improvement in the gross profit rate.

The PTSA gross profit rate increased primarily due to increases in fee based income. The increase in selling, general and administrative expenses was due to increased compensation related costs, including increased staffing costs related to adding permanent placement recruiters.

**International - Commercial**

	Third Quarter		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$412.3	\$362.2	13.8 %
Earnings from Operations	4.6	3.2	43.5
Gross profit rate	17.3 %	17.1 %	0.2 %
Expense rate	16.2	16.2	0.0
Operating margin	1.1	0.9	0.2

Translated U.S. dollar revenue from services in International - Commercial for the third quarter of 2007 totaled \$412.3 million, a 13.8% increase compared to the \$362.2 million reported in the third quarter of 2006. This resulted from a 16.4% increase in fee based income, an increase in hours worked of 2.8% and an increase in the translated U.S. dollar average hourly bill rates of 10.6%. Fee based income totaled \$13.9 million in the third quarter of 2007 and \$11.9 million in the third quarter of 2006. International - Commercial revenue represented 28.9% of total Company revenue in the third quarter of 2007 and 25.9% in the third quarter of 2006.

On a constant currency basis, revenue increased by 5.8%, fee based income increased 7.4% and average hourly bill rates increased 2.9% from the third quarter of 2006. On a year-over-year basis, constant currency revenue growth by month was 7.2% in July, 6.0% in August and 4.1% in September.

During the second quarter of 2007, the French government changed the method of calculating payroll tax credits. In connection with this change, \$0.6 million of French payroll tax credits were recognized in the third quarter of 2007.

International - Commercial earnings from operations for the third quarter of 2007 totaled \$4.6 million compared to \$3.2 million last year. The current year includes the effect of the French payroll tax credits of \$0.6 million, partially offset by a \$1.0 million charge related to the restructuring of the UK operations. The 13.8% increase in revenue, combined with a 0.2 percentage point increase in the gross profit rate, resulted in a 0.2 percentage point increase in the operating margin.

The 0.2 percentage point increase in International - Commercial gross profit rate for the third quarter of 2007 was primarily due to strong growth in fee-based income and effect of the French payroll tax credits.

#### **International - PTSA**

	Third Quarter		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$ 52.6	\$ 37.5	40.4 %
Earnings from Operations	1.0	0.3	229.9
Gross profit rate	30.5 %	25.1 %	5.4 %
Expense rate	28.7	24.3	4.4
Operating margin	1.8	0.8	1.0

Translated U.S. dollar revenue from services in International - PTSA for the third quarter of 2007 totaled \$52.6 million, a 40.4% increase compared to the \$37.5 million reported in the third quarter of 2006. This resulted from a 105.7% increase in fee based income and an increase in hours worked of 15.4%, combined with an increase in the translated U.S. dollar average hourly bill rates of 14.5%. Fee based income totaled \$8.7 million in the third quarter of 2007 and \$4.2 million in the third quarter of 2006. International - PTSA revenue represented 3.7% of total Company revenue in the third quarter of 2007 and 2.7% in the third quarter of 2006.

On a constant currency basis, revenue increased by 30.3%, fee based income increased 93.1% and average hourly bill rates increased 6.0% from the third quarter of 2006. On a year-over-year basis, constant currency revenue growth by month was 25.5% in July, 33.7% in August and 32.9% in September.

Operating earnings for International - PTSA for the third quarter were \$1.0 million in 2007 and a \$0.3 million in 2006, which resulted in a 1.0 percentage point increase in the operating margin. The 40.4% increase in revenue was partially offset by a 4.4 percentage point increase in the expense rate. The International - PTSA gross profit rate for the third quarter of 2007 increased 5.4 percentage points from the same period last year, primarily due to very strong growth in fee based income. The increase in U.S. dollar reported expenses was due primarily to the growth in compensation related costs and costs associated with new branches.

#### **Results of Operations September Year to Date**

Revenue from services for the first nine months of 2007 totaled \$4.192 billion, an increase of 1.6% from the same period in 2006. This was the result of an increase in average hourly bill rates of 2.9%, partially offset by a decrease in hours worked of 1.7%. Fee based income, which is included in revenue from services, totaled \$99.7 million, or 2.4% of total revenue, for the first nine months of 2007, an increase of 30.2% as compared to \$76.6 million for the first nine months of 2006. Reflecting the economic slowdown in the U.S. market, revenue for the first nine months of 2007 decreased in the Americas - Commercial and Americas - PTSA business segments. Revenue increased at double-digit rates in both the International - Commercial and International - PTSA business segments.

Compared to the first nine months of 2006, the U.S. dollar was weaker against many foreign currencies, including the euro, British pound and Canadian dollar. As a result, our consolidated U.S. dollar translated revenue was slightly higher than would have otherwise been reported. On a constant currency basis, revenue for the first nine months of 2007 decreased 0.8% as compared with the prior year. The table below summarizes the impact of foreign exchange adjustments on revenue for the first nine months of 2007:

	Sept. Year to Date Revenue		% Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services - Constant Currency:			
Americas - Commercial	\$2,059.0	\$2,177.0	(5.4) %
Americas - PTSA	812.6	831.0	(2.2)
Total Americas - Constant Currency	2,871.6	3,007.9	(4.5)
International - Commercial	1,086.1	1,013.7	7.1
International - PTSA	135.8	103.8	30.9
Total International - Constant Currency	1,221.9	1,117.5	9.3
Total Revenue from Services - Constant Currency	4,093.6	4,125.4	(0.8)
Foreign Currency Impact	98.3	—	
Revenue from Services	<u>\$4,191.8</u>	<u>\$4,125.4</u>	<u>1.6</u> %

Gross profit of \$723.7 million was 8.5% higher than the gross profit of \$667.2 million for the same period of the prior year. The gross profit rate for the first nine months of 2007 was 17.3%, versus 16.2% for the first nine months of 2006. Compared to the prior year, the gross profit rate increased in all four business segments.

The improvement in the gross profit rate is due to lower payroll tax rates and workers' compensation costs measured as a percentage of direct wages and higher fee based income. The gross profit rate also includes the effect of the French payroll tax credits noted below.

During the second quarter of 2007, the French government changed the method of calculating payroll tax credits, retroactive to the beginning of 2006 and on a go-forward basis until October 1, 2007. As a result, Kelly recognized a total credit of \$4.4 million in the first nine months of 2007, of which \$2.6 million related to 2006.

We regularly update our estimates of the ultimate costs of open workers' compensation claims. As a result, we reduced the estimated cost of prior year workers' compensation claims by \$6.5 million for the first nine months of 2007. This compares to a similar adjustment reducing prior year workers' compensation claims by \$2.3 million for the first nine months of 2006.

Selling, general and administrative expenses totaled \$670.1 million, an increase of 9.6% year over year. Selling, general and administrative expenses expressed as a percentage of revenue ("expense rate") were 16.0% for the first nine months of 2007, a 1.2 percentage point increase compared to the 14.8% rate for the first nine months of 2006. Included in selling, general and administrative expenses are \$7.5 million of expenses related to the Americas Commercial and UK restructuring actions. The remaining increase in selling, general and administrative expenses is due primarily to the growth in compensation related costs.

Earnings from operations for the first nine months of 2007 totaled \$53.5 million, a 3.9% decrease as compared to the first nine months of 2006. Included in earnings from operations are \$7.5 million of expenses related to the restructuring actions and \$4.4 million related to French payroll tax credits.

Other income, net for the first nine months of 2007 was \$2.2 million, compared to \$0.9 million for the same period last year. The change is primarily attributable to an increase in interest income related to higher U.S. interest rates and higher cash balances compared to last year.



The effective income tax rate on continuing operations for the first nine months of 2007 was 36.7%, an increase from last year's rate of 35.6%. The majority of the increase in the effective tax rate is a result of an increase in losses in certain international locations, particularly the UK, for which no income tax benefit is provided. This was partially offset by the benefit of the Work Opportunity Tax credit which was reinstated during the fourth quarter of 2006.

Earnings from continuing operations were \$35.3 million for the first nine months of 2007, compared to \$36.5 million for the first nine months of 2006. Included in earnings from continuing operations are \$7.0 million of expenses, net of tax, related to the UK and Americas restructuring actions and \$3.0 million of French payroll tax credits, net of tax.

Earnings from discontinued operations, which include KHC's and KSL's operating results, as well as the \$6.2 million gain on the sale of KHC, net of tax, totaled \$7.1 million for the first nine months of 2007, as compared to \$2.6 million for the same period in 2006.

Net earnings for the first nine months of 2007 totaled \$42.4 million, an increase of 8.5% as compared to last year. Basic and diluted earnings per share from continuing operations for the first nine months of 2007 were \$0.96, as compared to basic and diluted earnings per share from continuing operations of \$1.01 for the first nine months of 2006.

### **Americas - Commercial**

	Sept. Year to Date		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$2,063.6	\$2,177.0	(5.2) %
Earnings from Operations	63.1	73.3	(14.0)
Gross profit rate	15.8 %	15.2 %	0.6 %
Expense rate	12.7	11.8	0.9
Operating margin	3.1	3.4	(0.3)

Revenue from services in the Americas - Commercial segment totaled \$2.064 billion for the first nine months of 2007, a 5.2% decrease compared to the \$2.177 billion reported for the same period in 2006. This reflected a decrease in hours worked of 8.5%, partially offset by an increase in average hourly bill rates of 3.5%. Fee based income totaled \$14.0 million for the first nine months of 2007, a 0.9% decrease from the \$14.2 million for the same period in 2006. Americas - Commercial revenue represented 49.2% of total Company revenue for the first nine months of 2007 and 52.8% for the first nine months of 2006.

Americas - Commercial earnings from operations totaled \$63.1 million for the first nine months of 2007, as compared to earnings of \$73.3 million last year, reflecting a 0.3 percentage point decrease in the operating margin. This was the result of the 5.2% decrease in revenue and a 0.9 percentage point increase in the selling, general and administrative expense rate, partially offset by a 0.6 percentage point increase in the gross profit rate.

The increase in the gross profit rate reflected lower workers' compensation costs and reduced payroll taxes. As noted above, the Company revised its estimate of the cost of outstanding workers' compensation claims and, accordingly, reduced expense during the first nine months of 2007. Of the total \$6.5 million adjustment, \$5.8 million is reflected in the results of Americas - Commercial. This compares to an adjustment of \$2.1 million for the first nine months of 2006. The increase in selling, general and administrative expense rate was primarily due to growth in compensation costs and the reduction in expense leverage as a result of the decrease in revenue from services.

**Americas - PTSA**

	Sept. Year to Date		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$812.9	\$831.0	(2.2) %
Earnings from Operations	41.7	43.0	(2.9)
Gross profit rate	18.5 %	16.8 %	1.7 %
Expense rate	13.4	11.6	1.8
Operating margin	5.1	5.2	(0.1)

Revenue from services in the Americas - PTSA segment for the first nine months of 2007 totaled \$812.9 million, a decrease of 2.2% compared to the \$831.0 million reported for the same period in 2006. This reflected a decrease in hours worked of 3.2%, partially offset by an increase in average billing rates of 1.6% for the professional and technical staffing businesses. Fee based income totaled \$22.7 million for the first nine months of 2007 and \$17.8 million for the first nine months of 2006, an increase of 27.8%. Americas - PTSA revenue represented 19.4% of total Company revenue for the first nine months of 2007 and 20.1% for the first nine months of 2006.

Kelly Health Care, Kelly Management Services and HRfirst were the leading performers in revenue growth during the first nine months of 2007. Kelly IT Resources, Kelly Scientific Resources, Kelly Engineering Resources and Automotive Services Group reported year-over-year revenue declines during the first nine months of 2007.

Americas - PTSA earnings from operations for the first nine months of 2007 totaled \$41.7 million, a decrease of 2.9% from the same period in 2006. This was the result of the 2.2% decrease in revenue and a 1.8 percentage point increase in the selling, general and administrative expense rate, partially offset by the 1.7 percentage point improvement in the gross profit rate.

The Americas - PTSA gross profit rate increased primarily due to increases in fee based income, reduced payroll taxes and workers' compensation costs and the benefit of a full nine-month impact of the higher margin Ayers' outplacement business, acquired in the second quarter of 2006. The increase in selling, general and administrative expenses was due to increased compensation related costs, including a nine-month impact of the Ayers' outplacement business and increased staffing costs related to adding permanent placement recruiters.

**International - Commercial**

	Sept. Year to Date		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$1,168.9	\$1,013.7	15.3 %
Earnings from Operations	4.4	0.3	NM
Gross profit rate	17.4 %	16.9 %	0.5 %
Expense rate	17.0	16.9	0.1
Operating margin	0.4	0.0	0.4

Translated U.S. dollar revenue from services in International - Commercial for the first nine months of 2007 totaled \$1.169 billion, a 15.3% increase compared to the \$1.014 billion reported for the first nine months of 2006. This resulted from an 18.7% increase in fee based income, an increase in hours worked of 14.3% and an increase in the translated U.S. dollar average hourly bill rates of 0.8%. Fee based income totaled \$39.2 million for the first nine months of 2007 and \$33.1 million for the first nine months of 2006. International - Commercial revenue represented 27.9% of total Company revenue for the first nine months of 2007 and 24.6% for the first nine months of 2006.

On a constant currency basis, revenue increased by 7.1%, fee based income increased 9.5% and average hourly bill rates decreased 6.3% from the first nine months of 2006. The change in average bill rates was impacted by significant growth in lower average wage rate countries, such as India and Malaysia.

International - Commercial earnings from operations for the first nine months of 2007 totaled \$4.4 million, compared to earnings of \$0.3 million last year. The current year includes a \$6.0 million charge related to the restructuring of the UK operations and a \$4.4 million benefit related to French payroll tax credits. The 15.3% increase in revenue, combined with a 0.5 percentage point increase in the gross profit rate, was partially offset by a 0.1 percentage point increase in the selling, general and administrative expense rate.

The 0.5 percentage point increase in International - Commercial gross profit rate for the first nine months of 2007 primarily reflects the effect of the French payroll tax credits. The increase in U.S. dollar reported expenses was due primarily to the growth in compensation related costs and the \$6.0 million UK restructuring charge.

#### **International - PTSA**

	Sept. Year to Date		Change
	2007	2006	
	(In millions of dollars)		
Revenue from Services	\$146.4	\$103.8	41.1 %
Earnings from Operations	1.7	0.4	346.7
Gross profit rate	29.9 %	25.0 %	4.9 %
Expense rate	28.7	24.6	4.1
Operating margin	1.2	0.4	0.8

Translated U.S. dollar revenue from services in International - PTSA for the first nine months of 2007 totaled \$146.4 million, a 41.1% increase compared to the \$103.8 million reported for the first nine months of 2006. This resulted from a 105.0% increase in fee based income and an increase in hours worked of 17.1%, combined with an increase in the translated U.S. dollar average hourly bill rates of 13.7%. Fee based income totaled \$23.7 million for the first nine months of 2007 and \$11.5 million for the first nine months of 2006. International - PTSA revenue represented 3.5% of total Company revenue in the first nine months of 2007 and 2.5% for the same period in 2006.

On a constant currency basis, revenue increased by 30.9%, fee based income increased 93.0% and average hourly bill rates increased 5.1% from the first nine months of 2006.

Operating results for International - PTSA were earnings of \$1.7 million for the first nine months of 2007, compared to \$0.4 million in 2006, reflecting a 0.8 percentage point increase in the operating margin. The 41.1% increase in revenue was partially offset by a 4.1 percentage point increase in the expense rate. The International - PTSA gross profit rate for the first nine months of 2007 increased 4.9 percentage points from the same period last year. Growth in fee based income was partially offset by the effects of growth in pan-European corporate account business, which carries a lower gross profit rate. The increase in U.S. dollar reported expenses was due primarily to the growth in compensation related costs and costs associated with new branches.

Many of the Company's large corporate accounts and pan-European customers have negotiated high volume global service agreements, which tend to result in lower gross profit rates than those earned with the Company's small and medium size customers. However, these accounts typically also have lower administrative costs due to economies of scale, and can yield an operating margin similar to that realized with small or medium size customers. The Company's strategy is focused on serving and growing large corporate and local accounts. As customer mix shifts to larger accounts, the Company's average gross margins tend to decrease.

**Restructuring - UK Operations**

On January 24, 2007, the Chief Executive Officer of Kelly Services, Inc. authorized a restructuring plan for our United Kingdom operations ("Kelly UK"). The plan is the result of management's strategic review of the operations of Kelly UK which identified under-performing branch locations and the opportunity for additional operational cost savings.

As of September 30, 2007, Kelly UK has completed its restructuring actions and closed each of the 22 branches scheduled for closure, reached settlements with landlords for the UK headquarters locations and incurred \$0.2 million and \$5.0 million, respectively, of restructuring charges associated with these actions in the 13 and 39 weeks ended September 30, 2007. These expenses are reported as a component of selling, general and administrative expenses in the International - Commercial segment. For the 13 weeks ended September 30, 2007, the \$0.2 million charge includes \$0.1 million for facility exit costs and less than \$0.1 million for accelerated depreciation of leasehold improvements and personal property. For the 39 weeks ended September 30, 2007, the \$5.0 million charge includes \$4.3 million for facility exit costs and \$0.6 million for accelerated depreciation. The Company did not incur any significant severance costs in connection with the restructuring.

In addition, the Company has incurred moving, fit out and lease origination fees related to the headquarters consolidation of \$0.8 million and \$1.1 million, respectively, for the 13 and 39 weeks ended September 30, 2007. Total costs of the UK project were \$6.0 million.

**Restructuring - Americas Operations**

On July 23, 2007, the Chief Executive Officer of Kelly Services, Inc. authorized a restructuring plan for our Americas – Commercial branch operations. The plan is the result of management's strategic review of operations in the U.S. which identified under-performing branch locations. The plan will result in the closure of approximately 50 branch locations.

As of September 30, 2007, Americas – Commercial has closed 42 of the branches scheduled for closure and incurred \$1.5 million of restructuring charges associated with these actions in the 13 and 39 weeks ended September 30, 2007. These expenses are reported as a component of selling, general and administrative expenses in the Americas - Commercial segment. For the 13 and 39 weeks ended September 30, 2007, the \$1.5 million charge includes \$1.4 million for facility exit costs and \$0.1 million for accelerated depreciation of leasehold improvements and personal property. The Company plans to complete the restructuring actions in the fourth quarter of 2007. To complete the restructuring actions, we expect to incur additional facility exit costs of approximately \$0.5 million and accelerated depreciation of \$0.1 million. We currently expect the total pre-tax facility exit costs and accelerated depreciation will be approximately \$2.1 million. The Company does not expect to incur any significant severance costs in connection with the restructuring.

It is currently expected that the restructuring plans above will result in improved operating results beginning in the fourth quarter of 2007 by lower selling, general and administrative expenses through reduced facilities and related expenses.

**Financial Condition**

Kelly has financed its operations through cash generated by operating activities and available from revolving credit facilities. As highlighted in the Statements of Cash Flows, the Company's liquidity and available capital resources are impacted by four key components: cash and equivalents, operating activities, investing activities and financing activities.

**Cash and Equivalents**

Cash and equivalents totaled \$103 million at the end of the third quarter of 2007, a decrease of \$15 million from the \$118 million at year-end 2006. As further described below, the Company generated \$50 million of cash from operating activities, used \$47 million of cash in investing activities and used \$22 million in financing activities.

**Operating Activities**

In the first nine months of 2007, the Company generated \$50 million in cash from its operating activities, as compared to \$59 million in the first nine months of 2006. This decrease is due primarily to growth in accounts receivable.

Trade accounts receivable totaled \$904 million at the end of the third quarter of 2007. Global days sales outstanding at the end of the third quarter of 2007 were 58 days, compared to 57 days as of the end of third quarter in the prior year. The increase of one day primarily reflects the growth in international business mix.

The Company's working capital position was \$473 million at the end of the third quarter of 2007, compared to \$463 million at year-end 2006. The current ratio was 1.8 at both the end of the third quarter of 2007 and year-end 2006.

### **Investing Activities**

In the first nine months of 2007, the Company used \$47 million for investing activities, compared to \$31 million in the first nine months of 2006. Capital expenditures totaled \$34 million for the first nine months of 2007 and \$26 million for the first nine months of 2006.

Capital expenditures for 2007, which are primarily related to the Company's information technology programs and branch openings, refurbishments and relocations, are expected to total between \$46 and \$48 million, compared to \$46 million for 2006. This level reflects continued spending associated with the implementation of the PeopleSoft payroll, billing and accounts receivable project.

The total cost related to the PeopleSoft payroll, billing and accounts receivable project, which commenced in the fourth quarter of 2004, is expected to be approximately \$53 to \$56 million in capital expenditures and approximately \$23 to \$24 million in selling, general and administrative expenses. Capital expenditures for the PeopleSoft project by year are expected to amount to approximately \$23 million in total for 2007 and approximately \$6 to \$9 million in 2008. Selling, general and administrative expenses for the PeopleSoft project by year are expected to amount to approximately \$7 million in total for 2007 and approximately \$7 to \$8 million in 2008. The PeopleSoft implementation is expected to cover U.S., Canada, Puerto Rico, U.K. and Ireland operations.

During the first quarter of 2007, the Company sold the Kelly Home Care business for cash proceeds of \$12.5 million. The results of operations and the gain on sale are presented in discontinued operations in both 2007 and 2006.

On April 1, 2007, the Company purchased the remaining shares of Tempstaff Kelly, Inc., a joint venture originally created with Sony Corporation and Tempstaff, one of the largest staffing companies in Japan, for \$2 million, net of cash received. With the purchase of the remaining 51% interest in Tempstaff Kelly, Tempstaff Kelly became a wholly owned, consolidated subsidiary of Kelly Services, Inc. as of April 1, 2007. Tempstaff Kelly is included in the International - Commercial and International - PTSA business segments subsequent to April 1, 2007.

During the first quarter of 2007, the Company acquired the net operating assets of Talents Technology, a permanent placement and executive search firm with operations in the Czech Republic and Poland, for \$3 million in cash. The transaction also includes additional contingent earnout payments of up to \$1.6 million over the next three years, based primarily on the achievement of certain earnings targets. Talents Technology is included in the International - PTSA business segment as of April 1, 2007.

During the first quarter of 2007, the Company also acquired the net operating assets of CGR/seven LLC, a creative staffing services firm that specializes in providing creative talent, for \$12 million in cash at the date of acquisition and \$1 million payable in each of the years 2008 and 2009, and possible additional earnout payments of up to \$2 million payable in each of the years 2008 and 2009, based primarily on the achievement of certain earnings targets. CGR/seven is included in the Americas - PTSA business segment as of April 1, 2007.

During the second quarter of 2007, the Company acquired P-Serv, a company specializing in temporary staffing, permanent staffing, outsourcing and executive search with operations in China, Hong Kong and Singapore, for \$8 million in cash. The transaction also includes additional contingent earnout payments of up to \$2.6 million in total payable in 2009 and 2010, based primarily on the achievement of certain earnings targets. P-Serv is included as a business unit in the International - Commercial business segment of the Company from the date of acquisition.

In October, 2007, the Company announced that it has signed a definitive agreement to acquire access AG, a specialized recruitment services company headquartered in Germany and with operations in Austria. In connection with this acquisition, the Company will make an initial payment of approximately \$20 million upon closing, with possible additional contingent payments of up to approximately \$10 million over the next two years, based on the achievement of certain earnings targets.

During the second quarter of 2006, the Company acquired the net operating assets of The Ayers Group for \$4.6 million. The transaction includes additional contingent payments of up to \$1.3 million, payable over the next two years, based on achievement of targets.

On October 2, 2006, the Company purchased Sony Corporation's 40% interest in Tempstaff Kelly for \$5 million. With the purchase of Sony Corporation's ownership share, the Company increased its ownership interest to 49%.

### ***Financing Activities***

In the first nine months of 2007, the Company used \$22 million in financing activities, compared to \$15 million in the first nine months of 2006. Short-term debt totaled \$75 million at the end of the third quarter of 2007, compared to \$69 million at year-end 2006. At the end of the third quarter of 2007, debt represented approximately 8.7% of total capital.

During the third quarter of 2007, the Company repurchased 556 thousand Class A shares for \$12.5 million. A total of \$37.5 million remains available under the \$50 million share repurchase program authorized by the Company's board of directors in August, 2007.

In the first quarter of 2007, the Company obtained short-term financing utilizing an \$8.2 million yen-denominated credit facility to purchase the additional 51% interest in Tempstaff Kelly, as well as to fund local working capital. In the first nine months of 2007, the Company made \$14.2 million in dividend payments and \$3.5 million in net repayments on the revolving line of credit.

During the third quarter of 2006, the Company obtained short-term financing utilizing a \$5 million yen-denominated credit facility to purchase the additional 40% interest in Tempstaff Kelly.

### ***New Accounting Pronouncements***

See Note 12 , New Accounting Pronouncements, in the Notes to Financial Statements of this Quarterly Report on Form 10-Q for a description of new accounting pronouncements.

### ***Contractual Obligations and Commercial Commitments***

Other than the obligations related to our acquisitions and income taxes disclosed in the notes to financial statements in this Form 10-Q filing, there are no material changes in the Company's obligations and commitments to make future payments from those included in the Company's Annual Report on Form 10-K filed February 14, 2007. The Company has no material, unrecorded commitments, losses, contingencies or guarantees associated with any related parties or unconsolidated entities.

### ***Summary***

The Company's financial position remains strong. The Company expects to meet its cash requirements over at least the next 12 months, including the funding of the PeopleSoft payroll, billing and accounts receivable project, principally through cash generated from operations, available cash and equivalents and committed unused credit facilities.

### **Forward-Looking Statements**

Certain statements contained in this document are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). Forward-looking statements include statements which are predictive in nature; which depend upon or refer to future events or conditions; or which include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” or variations or negatives thereof or by similar or comparable words or phrases. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions that may be provided by management are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, and economic and market factors in the countries in which the Company does business, among other things. These statements are not guarantees of future performance, and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause the Company’s actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, competitive market pressures including pricing, changing market and economic conditions, material changes in demand from large corporate customers, availability of temporary workers with appropriate skills required by customers, increases in wages paid to temporary workers, liabilities for client and employee actions, foreign currency fluctuations, changes in laws and regulations (including federal, state and international tax laws), the Company’s ability to effectively implement and manage its information technology programs, and the ability of the Company to successfully expand into new markets and service lines. Certain risk factors are discussed more fully under “Risk Factors” in Part I, Item 1A of the Company’s Annual Report filed on Form 10-K.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Kelly does not hold or invest in derivative contracts. The Company is exposed to foreign currency risk primarily due to its net investment in foreign subsidiaries, which conduct business in their local currencies. These risks are partially mitigated by the impact of the Company's local currency-denominated local borrowings, which mitigate the exchange rate risk resulting from foreign currency-denominated net investments fluctuating in relation to the U.S. dollar.

In addition, the Company is exposed to interest rate risks through its use of the multi-currency line of credit.

Marketable equity investments are stated at fair value and marked to market through stockholders' equity, net of tax. Impairments in value below historical cost, if any, deemed to be other than temporary, would be expensed in the statement of earnings.

The Company is exposed to market risk as a result of its obligation to pay benefits under its nonqualified deferred compensation plan and its related investments in company-owned variable universal life insurance policies. The obligation to employees increases and decreases based on movements in the equity and debt markets. The investments in mutual funds, as part of the company-owned variable universal life insurance policies, are designed to mitigate this risk with offsetting gains and losses.

Overall, the Company's holdings and positions in market risk-sensitive instruments do not subject the Company to material risk.

**Item 4. Controls and Procedures**

Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective.

During the quarter ended September 30, 2007, the Company has converted the U.S., Canada and Puerto Rico businesses to the PeopleSoft accounts receivable system. Management has reviewed the internal controls impacted by the implementation of the PeopleSoft accounts receivable system, and has made changes to these internal controls as appropriate.

There were no other changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

See Note 11 to the financial statements of this Quarterly Report on Form 10-Q for a discussion of current legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes in the Company's risk factors disclosed in Part I, Item 1A of Company's Annual Report filed on Form 10-K for year ended December 31, 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

## (a) Sales of Equity Securities Not Registered Under the Securities Exchange Act of 1933

None.

## (c) Issuer Repurchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (in thousands of dollars)
July 2, 2007 through August 5, 2007	366	\$ 23.80	—	\$ —
August 6, 2007 through September 2, 2007	400,614	22.42	400,614	\$ 41,019
September 3, 2007 through September 30, 2007	<u>155,885</u>	<u>22.63</u>	<u>155,519</u>	\$ 37,500
Total	<u>556,865</u>	<u>\$ 22.48</u>	<u>556,133</u>	

On August 8, 2007, we announced that our Board of Directors authorized the repurchase of up to \$50 million of the Company's outstanding Class A common shares. The Company intends to repurchase shares under the program, from time to time, in the open market. The repurchase program has a term of 24 months. We may also reacquire shares outside the program in connection with the surrender of shares to cover taxes on vesting of restricted stock. 732 shares were reacquired in transactions outside the program during the quarter.

**Item 6. Exhibits.**

See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 35 of this filing.

**SIGNATURES**

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 8, 2007

/s/ William K. Gerber

William K. Gerber

Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: November 8, 2007

/s/ Michael E. Debs

Michael E. Debs

Senior Vice President and Corporate Controller  
(Principal Accounting Officer)

**INDEX TO EXHIBITS  
REQUIRED BY ITEM 601,  
REGULATION S-K**

<b>Exhibit No.</b>	<b>Description</b>
3.2	Bylaws, as amended August 8, 2007. (Reference is made to Exhibit 3.2 to the Form 8-K filed with the Commission in August, 2007, which is incorporated by reference.)
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## CERTIFICATIONS

I, Carl T. Camden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kelly Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

/s/ Carl T. Camden

Carl T. Camden

President and  
Chief Executive Officer

## CERTIFICATIONS

I, William K. Gerber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kelly Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

/s/ William K. Gerber  
William K. Gerber

Executive Vice President and  
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kelly Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carl T. Camden, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2007

/s/ Carl T. Camden

Carl T. Camden

President and  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Kelly Services, Inc. and will be retained by Kelly Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kelly Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William K. Gerber, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2007

/s/ William K. Gerber

William K. Gerber

Executive Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Kelly Services, Inc. and will be retained by Kelly Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.