KELLY SERVICES

2000 Annual Report

Australia
Belgium
Canada
Denmark
France
Germany
India
Indonesia
Ireland
Italy
Luxembourg
Malaysia
Mexico
Netherlands
New Zealand
Norway
Philippines
Puerto Rico
Russia
Singapore
Spain
Sweden
Switzerland
Thailand
United Kingdom
United States

Contents

Statement of Business

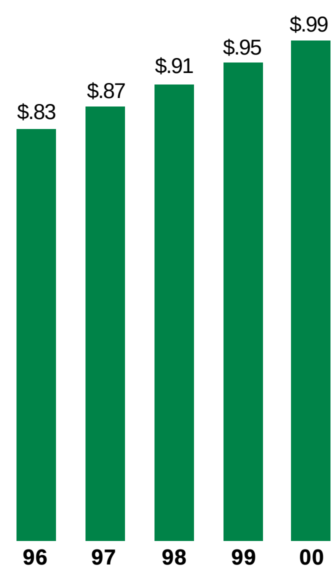
Kelly Services, Inc. is a leading global provider of staffing services. Kelly provides employees within service lines ranging from finance, education and information technology, to health care, HR consulting and scientific. Kelly offers human resource solutions that include temporary staffing, outsourcing, staff leasing, vendor on-site and full-time placement.

Financial Highlights

	2000	1999	CHANGE
	(In thousands of dollars except per share items)		
Sales of services	**$4,487,291**	$4,269,113	+ 5.1%
Earnings before income taxes	**145,276**	143,710	+ 1.1%
Income taxes	**58,100**	58,600	- 0.9%
Net earnings	**87,176**	85,110	+ 2.4%
Basic earnings per share	**2.44**	2.37	+ 3.0%
Diluted earnings per share	**2.43**	2.36	+ 3.0%
Dividends per share	**.99**	.95	+ 4.2%
Working capital	**288,488**	284,850	+ 1.3%
Stockholders’ equity	**623,469**	582,373	+ 7.1%
Total assets	**1,089,576**	1,033,691	+ 5.4%

Sales of Services
(billions of dollars)

Diluted Earnings Per Share



Dividends Per Share

To Our Stockholders

Terence E. Adderley
Chairman, President and
Chief Executive Officer

The Year in Brief

2000 was a challenging year for Kelly Services. Early in the year, I announced a realignment of U.S. Commercial management in order to reverse declining sales in our U.S. Commercial business. The realignment effort was successful and sales began to trend positive.

The U.S. dollar continued to strengthen against the euro and sterling, creating an unfavorable currency translation when converting local currency to dollars. Therefore, our reported sales understate our true sales, measured in local currency, by nearly 10% in the International segment. Also, early in the year, our United Kingdom executive management team experienced near total turnover. Sales and earnings in the U.K. were almost immediately impacted.

In spite of these difficulties, the strong performance of our Professional, Technical and Staffing Alternatives (PTSA) businesses combined with the continuing improvement in U.S. Commercial enabled us to produce three quarters of sales and earnings gains over the prior year.

In the fourth quarter, the slowing U.S. and European economies reduced sales and earnings growth. The traditional fourth-quarter peak in holiday demand did not occur for U.S. Commercial. The slowdown in the automotive sector affected both PTSA and U.S. Commercial sales. Furthermore, a general housecleaning in the U.K. further reduced International sales and earnings.

In January of 2001, we lowered our fourth-quarter 2000 earnings estimate and indicated we were uncertain about the economic outlook and its impact on our business in 2001.

Financial Performance

In spite of the fourth-quarter results, based on the strength of the first three quarters and including an $8.6 million pre-tax gain from a fourth-quarter sale of land, the year 2000 marked the 9th consecutive year of increased sales and earnings per share. Sales totaled approximately $4.5 billion, a 5% increase over 1999. Net earnings were $87.2 million, up 2.4% from the previous year. Diluted earnings per share rose 3.0% to $2.43 in 2000.

For the 29th consecutive year, the annual dividend was increased. The quarterly dividend on Class A and B common stock was raised 4.2% to 25 cents per share.

Business Expansion

We successfully expanded our base of operations in 2000 in all three segments – U.S. Commercial, PTSA and International.

An important part of our U.S. Commercial strategy was to improve our performance in cities with low market share. For example, the acquisition of the ProStaff Group in Milwaukee expanded our presence in that rapidly growing market. We also concentrated on Kelly Educational Staffing, a new product for U.S. Commercial. We now provide substitute teachers for more than 700 schools across 27 states.

We significantly expanded our PTSA branch network and introduced one new service, Kelly HR Consulting. This new service provides consulting in staffing-related areas such as recruiting, training and quality and serves as an extension of our core competencies.

In the International division, we expanded into Asia by acquiring the Singapore-based Business Trends Group. The acquisition extended Kelly's global coverage to Singapore, India, Indonesia, Malaysia, the Philippines and Thailand. We also acquired Extra ETT in Spain, which specializes in staffing for the automotive industry. Kelly now provides automotive staffing on three continents. The continuing globalization of Kelly Services is highlighted in the theme section of this report.

Senior Management Changes

There were several key senior management changes this past year. We created the role of senior vice president and general manager of U.S. Commercial in April and appointed Arlene Grimsley, formerly the head of the PTSA division, to this position.

Also in April, Andrew Watt, formerly general manager of the Middle Markets commercial division, was named senior vice president and general manager of the PTSA division.

Rolf Kleiner, formerly the head of our PTSA Science and Healthcare Group, was appointed to lead our International efforts in December 2000.

Additional senior vice president appointments include George Corona, division general manager of Middle Markets; Carol Johnson, division general manager of Metro Markets; and Bernard Tommasini, regional manager, Western Europe.

Looking Forward

In January of 2001, we stated we did not know if the economy was at the beginning of an economic slowdown or of a recession. Economists still disagree. But we do know that even if it is only an economic slowdown, it may be severe.

Contrary to popular myth, staffing is not recession-proof. Companies do not lay off their permanent workforce and replace them with temporary workers in a recession. Temporary employees are often the first to be let go in a recession and the first to be brought back at the beginning of a recovery.

Staffing growth is very dependent upon Gross Domestic Product growth and workforce availability. Given the uncertainty of the economic forecasts, we are still uncertain about near-term growth rates. Looking beyond 2001, however, we believe we have positioned the company to return to double-digit sales and earnings growth.

Concluding Comments

Kelly has a strong balance sheet and the experience to weather even a lengthy recession. When the economic recovery begins, we expect to be well-positioned to again grow quickly.

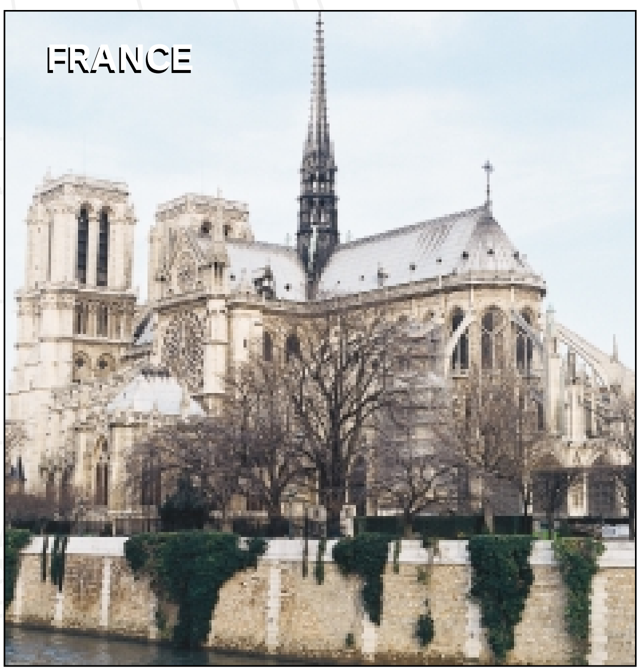
We are focused on the basics that underpin success in our business: selling, recruiting, hiring, filling orders, the maintenance of customers and temporary employees, and increasing productivity. We are committed to doing this better than anyone else on behalf of our customers and our temporary employees.

T. E. Adderley

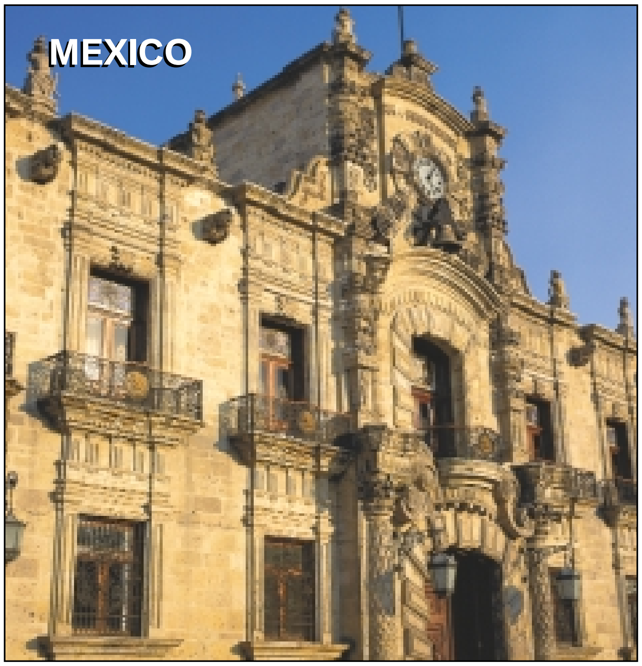
T.E. Adderley
Chairman, President and Chief Executive Officer
Kelly Services, Inc.

Growing to Meet Every Customer's Needs

As a global company serving global customers, Kelly Services strives to provide the right people and the right human resource solutions, wherever we are needed. Our global strategy is supported by a continued focus on personal service at the local level – from sending a car through Mexican villages offering candidates a ride to our office, to assigning scientists for the first time in a country, to operating an on-campus career training center at an Asian university – time and time again, we show our commitment to serving our customers and employees. Our recent expansion into six Asian countries with the acquisition of the Business Trends Group is an example of our global positioning strategy.



Kelly Scientific Resources, KellyConnect and Kelly Automotive Services have all been deployed internationally.



Building Our Foundation in Asia

Dhirendra Shantilal, Vice President and Managing Director, Asia

Laletha Nithiyanandan, Founder and Director, Asia

Kelly Services' philosophy is to serve our customers wherever they need us. In 2000, Kelly acquired Business Trends Group, an Asian staffing company headquartered in Singapore. We have worked with Business Trends for more than a decade. We were delighted to formally bring the companies together.

Business Trends has been in business for more than 20 years and has developed a reputation for being "Asia's Own Quality Staffing Company." They provide temporary staffing and permanent placement services, contract staffing and payroll administration. BTI Consultants, a subsidiary of Business Trends, offers executive search and selection services.

The acquisition of Business Trends extends our staffing services to Asia. With offices in Singapore, India, Indonesia, Malaysia, the Philippines and Thailand, we will directly serve many of our multinational customers.

With over 170 full-time employees, Business Trends operates 17 offices in six countries.

Dhirendra Shantilal is vice president and managing director of the company. Founder Laletha Nithiyanandan has remained with the company as a director. The company is number one in market share in Malaysia and number two in Singapore.

Innovative Recruiting ... The Business Trends Career Centre branch at Temasek Polytechnic (university) offers hands-on training in staffing practices for business students specializing in human resource management.

Staffing consultant Elly Harlim trains a new group of third-year business students at the Career Centre as part of their internship program.

Singapore at a Glance

Geography: Singapore Island and 60 smaller islands

Area: 252 sq. miles (646 sq. km)

Population: 4.0 million

People: 76% Chinese, 14% Malay, 7% Indian

Language: Malay, Mandarin, Tamil and English

Industry: Shipping, banking, tourism, oil refining and electronics

Known for: High-tech wizardry and also as the food capital of Asia

A Year of European Expansion

Established in 1995, Kelly Scientific Resources (KSR) has grown into a $200 million global business with over 70 locations in North America, Europe and Asia-Pacific. As the world's largest provider of staffing and human resource solutions to the scientific business community, KSR delivers its services from a network of offices located in the major business centers on three continents.

Synthetic Organic Chemist Prafula Khoila was assigned at London's Novartis Institute for Medical Sciences in June 2000.

Kelly Scientific Resources was the first scientific staffing company to enter France, Germany, Switzerland and Spain. We have defined scientific staffing in the European market. Our service, quality and consistency have also established KSR as the world-class benchmark and the preferred staffing company in our European markets.

KSR's global operations have a strong focus on career guidance and consulting services. The Kelly Science Learning Center, our online university, allows us to provide stronger, more knowledgeable and experienced candidates.

January '98 First KSR branch outside the U.S. opens in Toronto

September '98 KSR opens in France

January '99 KSR expands into Quebec

May '99 KSR opens in Australia

August '99 KSR opens in Puerto Rico

October '99 KSR opens in the United Kingdom

November '99 KSR opens in Switzerland

August '00 KSR expands to Manchester, England

United Kingdom

KSR opened in 1999 in Ealing, London. A second office opened in Manchester in 2000 to serve our growing customers. Led by Manager Audrey McCulloch, we now have more than 100 KSR customers in the U.K.

Audrey McCulloch, KSR Manager, United Kingdom

France

KSR pioneered scientific staffing in France, turning a concept into a reality and establishing the standard for the French market. Manager Laurence Friteau opened our Paris office in 1998, and in 2000 she oversaw the addition of our Lyon office to serve the biotechnology and pharmaceutical markets.

Laurence Friteau, Ph.D., KSR Manager, France

September '00
KSR opens in Germany

October '00
KSR expands to Perth, Australia

October '00
KSR opens in Spain

December '00
KSR expands to Lyon, France

Strengthening Our Presence in Mexico

Richard Binier, Vice President and General Manager, Mexico

In order to serve Mexican headquartered accounts and the national requests of global companies, Kelly sought a broader presence in Mexico. We found an ideal fit in a Guadalajara staffing company owned by entrepreneur Richard Binier.

In October 1999, Kelly Services purchased his company, with 14 offices, 130 staff members and a solid customer base. Today, business has more than doubled in Mexico. We have grown the operations to more than 40 offices and on-sites and 350 staff members.

The Internet and advertising – basic necessities in the U.S. and other countries – are not readily available in all of Mexico. So how do you recruit hundreds of employees at a time to fill the needs of leading technology companies in an area with such barriers?

Cars drive through villages where few people have transportation, offering rides to the Kelly office where candidates are assessed and interviewed.

Tents are set up adjacent to businesses and in other high-traffic areas to welcome people passing by.

At Kelly offices around the world, we screen, interview, test and train until we are satisfied with each candidate – and we do it more than a million times each year with methods adapted to each country.

Directors and Officers

Board of Directors

From left to right:

Verne G. Istock
Retired Chairman/
President,
Bank One
Corporation

**Maureen A. Fay,
O.P., Ph.D.**
President, University of
Detroit Mercy

Terence E. Adderley
Chairman,
President and Chief
Executive Officer

B. Joseph White
Dean, University of
Michigan Business
School

Cedric V. Fricke
Professor Emeritus,
The University of
Michigan-Dearborn

Senior Officers

Terence E. Adderley
Chairman, President and
Chief Executive Officer

Carl T. Camden
Executive Vice President,
Field Operations,
Sales and Marketing

William K. Gerber
Executive Vice President
and Chief Financial Officer

Tommi A. White
Executive Vice President,
Chief Administrative and
Technology Officer

James H. Bradley
Senior Vice President,
Administration

Joan M. Brancheau
Senior Vice President and
General Manager, Strategic
Customer Relationships

George S. Corona
Senior Vice President and
Division General Manager

Michael L. Durik
Senior Vice President,
Human Resources

Arlene G. Grimsley
Senior Vice President and
Division General Manager

Carol J. Johnson
Senior Vice President and
Division General Manager

Rolf E. Kleiner
Senior Vice President and
Division General Manager

George M. Reardon
Senior Vice President,
General Counsel and
Secretary

Larry J. Seyfarth
Senior Vice President,
Technical Services Group

James A. Tanchon
Senior Vice President,
Global Sales

Bernard Tommasini
Senior Vice President and
Regional Manager,
Western Europe

Andrew R. Watt
Senior Vice President and
Division General Manager

Michael S. Webster
Senior Vice President and
Division General Manager

Officers

Steven S. Armstrong
D. Craig Atkinson
Brian C. Ault
Robert A. Belec
Richard Binier
Paul A. Bordonaro
Dirk P.M.W. Bosma
Peter F. Brixius
Jane M. Brown
Sandra W. Brown
Jeanine E. Burgen
Michael S. Butler
Eileen M. Candels
Lorenzo Caporaletti
Mary Ann Carey
Daniel D. Catlin
Carol J. Clement
Catherine H. Cobb
Cheryl F. Courier
Michael E. Debs
Jacqueline B. Devin
John P. Drew

Sherry A. Drew
J. Kyle Duncan
Shaun M. Fracassi
Sandra W. Galac
Paul M. Hampton
Cullen F. Hanlon
Heidi L. Hanes*
Matthew L. Harvill
William L. Heinz
Christine M. Hoebermann
Bonnie D. Huber
Thomas P. Huizenga
Charles G. Jackson
Donald P. Kingston
Jeannie D. Koziol
Gregory S. Kruger
Nicole M. Lewis*
Wilma I. Lopez
Richard J. Lueders
Robert J. Lyons
Kaye C. Manikowski

Susan J. Marks
Timothy G. McAward
Timothy T. McClain
Dane D. McSpedon
Jonathan D. Means
W. Edward Meisenheimer
Lisa R. Miller
Gregory C. Morrow
Michael S. Morrow
Teresa A. Moskus
Terrence T. Murphy
Brian P. Nowak
Carolyn J. Palmer
Deborah L. Perrault
Juanita L. Pierman
Antonina M. Ramsey
Nicholas F. Regaldi
Diane E. Reynolds
Marc J.M. Riou
Ingrid A. Roberts
Marc W. Rosenow

Lori L. Sakorafis
Carleta C. Sandeen
Virginia A. Scaduto
Aly A.E. Schambourg
Michelle C. Schorr
Lynn G. Schwartz
Teresa E. Setting
Dhirendra Shantilal
Bradley J. Shaw
Debra S. Sheehan
Glenn L. Sorrie
Allen J. Sowers
J. Leon Stanek
Richard G. Struble
Michael J. Tilley
Thomas L. Totte
Andrew P. Trestrail
Tami A. Troxell
Josefa Vidal
Barbara A. Wilson
Larry D. Worthen

*Effective April 1, 2001

Financial Contents

Eleven Year Financial Summary

Kelly Services, Inc. and Subsidiaries

	Growth Rates[1] 10 Year	5 Year	1 Year	**2000**	1999
Operating Results (In millions of dollars)					
Sales of services	11.9%	10.8%	5.1%	**$ 4,487.3**	$ 4,269.1
Cost of services	12.9	11.5	5.5	**3,695.0**	3,503.1
Gross profit	8.3	7.9	3.4	**792.3**	766.0
Selling, general and administrative[5]	9.6	8.2	3.9	**646.6**	622.1
Earnings from operations	4.0	6.5	1.2	**145.7**	143.9
Interest (expense) income, net	N/A	N/A	69.7	**(0.4)**	(0.2)
Earnings before taxes	2.5	5.1	1.1	**145.3**	143.7
Income taxes	3.3	5.8	(0.9)	**58.1**	58.6
Net earnings	2.0	4.6	2.4	**87.2**	85.1
Dividends	5.9	3.6	3.7	**35.3**	34.0
Summary of total taxes[3]	10.7	9.5	5.9	**445.8**	421.1
Financial Position (In millions of dollars)					
Current assets	6.7%	6.2%	2.5%	**$ 754.6**	$ 736.2
Current liabilities	16.0	14.0	3.3	**466.1**	451.3
Working capital	0.0	(1.8)	1.3	**288.5**	284.9
Net property and equipment	18.2	19.0	7.5	**201.1**	187.0
Total assets	9.4	8.7	5.4	**1,089.6**	1,033.7
Stockholders' equity	6.3	5.5	7.1	**623.5**	582.4
Capital expenditures	16.3	9.8	(29.3)	**54.2**	76.7
Depreciation and amortization	15.4	11.7	8.9	**39.5**	36.2
Common Stock Data[4]					
Earnings per share					
Basic	2.6%	5.9%	3.0%	**$ 2.44**	$ 2.37
Diluted	2.5	5.8	3.0	**2.43**	2.36
Dividends per share: Classes A and B	6.4	4.9	4.2	**.99**	.95
Stockholders' equity (book value) per share	6.9	6.9	7.5	**17.45**	16.23
Stock price per share: Class A at year end	(1.1)	(3.2)	(6.0)	**23.63**	25.13
Number of common shares outstanding at year end (thousands)				**35,739**	35,874
Average number of shares outstanding (thousands)					
Basic				**35,721**	35,854
Diluted				**35,843**	36,030
Stock splits				**—**	—
Financial Ratios[1]					
Return on sales				**1.9%**	2.0%
Return on average assets				**8.2%**	8.5%
Return on average stockholders' equity				**14.5%**	15.2%
Effective tax rate				**40.0%**	40.8%
Current assets to current liabilities (current ratio)				**1.6**	1.6
Price earnings ratio at year end				**9.7**	10.6

(1) Growth rates and financial ratios calculated based on data rounded to thousands.
(2) Fiscal year included 53 weeks.
(3) Consists of payroll taxes and federal, state and local taxes.
(4) Shares consist of Class A and B common stock adjusted for all stock splits.
(5) For 2000, includes a gain on the sale of land of $8.6 million. For 1999, 1998 and 1997, includes Year 2000 expenses of $11 million, $8 million and $1 million, respectively.

Note: Certain prior year amounts have been reclassified to conform with the current presentation.

1998[2]	1997	1996	1995	1994	1993	1992[2]	1991	1990
$ 4,092.3	$ 3,852.9	$ 3,302.3	$ 2,689.8	$ 2,362.6	$ 1,954.5	$ 1,712.7	$ 1,424.3	$ 1,456.3
3,361.0	3,171.6	2,689.5	2,148.4	1,899.6	1,573.8	1,372.4	1,115.7	1,098.5
731.3	681.3	612.8	541.4	463.0	380.7	340.3	308.6	357.8
590.7	545.5	491.8	435.1	370.9	316.8	289.1	262.0	259.0
140.6	135.8	121.0	106.3	92.1	63.9	51.2	46.6	98.8
3.0	1.2	1.9	7.0	6.4	7.0	9.8	13.6	14.2
143.6	137.0	122.9	113.3	98.5	70.9	61.0	60.2	113.0
58.9	56.2	49.9	43.8	37.4	26.3	21.8	21.6	41.8
84.7	80.8	73.0	69.5	61.1	44.6	39.2	38.6	71.2
34.2	33.2	31.6	29.6	26.6	23.8	22.0	21.7	19.8
416.2	388.2	339.7	283.5	246.4	202.4	173.2	143.0	162.0
$ 719.9	$ 771.0	$ 658.6	$ 558.6	$ 526.7	$ 447.1	$ 408.6	$ 411.4	$ 393.2
426.5	407.4	322.0	242.6	210.9	155.9	128.8	124.4	106.0
293.4	363.6	336.6	316.0	315.8	291.2	279.8	287.0	287.2
146.4	112.7	97.7	84.4	70.2	68.3	69.3	51.5	37.9
964.2	967.2	838.9	718.7	642.4	542.1	496.1	479.4	443.8
537.8	559.8	516.9	476.1	431.5	386.2	367.3	355.0	337.8
59.1	39.7	36.5	34.0	18.4	16.1	32.4	23.5	12.0
28.9	28.3	26.1	22.7	19.1	17.5	14.7	10.5	9.5
$ 2.24	$ 2.12	$ 1.92	$ 1.83	$ 1.61	$ 1.18	$ 1.04	$ 1.03	$ 1.89
2.23	2.12	1.91	1.83	1.61	1.18	1.04	1.02	1.89
.91	.87	.83	.78	.70	.63	.58	.57	.53
15.02	14.67	13.58	12.52	11.37	10.23	9.74	9.43	8.98
31.75	29.25	27.50	27.75	27.50	27.75	35.00	22.00	26.38
35,807	38,163	38,059	38,015	37,963	37,755	37,706	37,624	37,603
37,745	38,099	38,043	37,993	37,956	37,728	37,668	37,616	37,586
37,945	38,191	38,133	38,057	38,005	37,761	37,711	37,679	37,644
—	—	—	—	—	5 for 4	—	—	—
2.1%	2.1%	2.2%	2.6%	2.6%	2.3%	2.3%	2.7%	4.9%
8.8%	8.9%	9.4%	10.2%	10.3%	8.6%	8.0%	8.4%	17.0%
15.4%	15.0%	14.7%	15.3%	14.9%	11.8%	10.9%	11.1%	22.9%
41.0%	41.0%	40.6%	38.7%	38.0%	37.1%	35.7%	35.9%	37.0%
1.7	1.9	2.0	2.3	2.5	2.9	3.2	3.3	3.7
14.2	13.8	14.4	15.2	17.1	23.5	33.7	21.6	14.0

Statements of Earnings

Kelly Services, Inc. and Subsidiaries

	2000	1999	1998[1]
	(In thousands of dollars except per share items)		
Sales of services	**$ 4,487,291**	$ 4,269,113	$ 4,092,251
Cost of services	**3,694,982**	3,503,052	3,360,976
Gross profit	**792,309**	766,061	731,275
Selling, general and administrative expenses (Note 3)	**646,624**	622,110	590,659
Earnings from operations	**145,685**	143,951	140,616
Interest (expense) income, net	**(409)**	(241)	2,999
Earnings before income taxes	**145,276**	143,710	143,615
Income taxes	**58,100**	58,600	58,900
Net earnings	**$ 87,176**	$ 85,110	$ 84,715
Basic earnings per share	**$ 2.44**	$ 2.37	$ 2.24
Diluted earnings per share	**$ 2.43**	$ 2.36	$ 2.23
Dividends per share	**$ .99**	$ .95	$ .91
Average shares outstanding (thousands):			
Basic	**35,721**	35,854	37,745
Diluted	**35,843**	36,030	37,945

See accompanying Notes to Financial Statements.

(1) Fiscal year included 53 weeks.

Statements of Cash Flows

Kelly Services, Inc. and Subsidiaries

	2000	1999	1998[1]
		(In thousands of dollars)	
Cash flows from operating activities			
Net earnings	**$ 87,176**	$ 85,110	$ 84,715
Noncash adjustments:			
Depreciation and amortization	**39,465**	36,238	28,865
Gain on disposition of property	**(8,567)**	—	—
Changes in certain working capital components	**(29,217)**	(5,884)	2,925
Net cash from operating activities	**88,857**	115,464	116,505
Cash flows from investing activities			
Capital expenditures	**(54,237)**	(76,696)	(59,089)
Short-term investments	**3,624**	6,051	55,232
Increase in other assets	**(8,018)**	(10,872)	(11,133)
Acquisition of companies, net of cash received	**(20,923)**	(5,557)	(3,385)
Proceeds from disposition of property	**10,309**	—	—
Net cash from investing activities	**(69,245)**	(87,074)	(18,375)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings	**10,629**	(419)	(7,329)
Dividend payments	**(35,303)**	(34,041)	(34,237)
Exercise of stock options and other	**85**	854	2,494
Purchase of treasury stock	**(5,737)**	(551)	(75,949)
Net cash from financing activities	**(30,326)**	(34,157)	(115,021)
Net change in cash and equivalents	**(10,714)**	(5,767)	(16,891)
Cash and equivalents at beginning of year	**54,032**	59,799	76,690
Cash and equivalents at end of year	**$ 43,318**	$ 54,032	$ 59,799

See accompanying Notes to Financial Statements.

(1) Fiscal year included 53 weeks.

Balance Sheets

Kelly Services, Inc. and Subsidiaries

ASSETS	2000	1999	1998
		(In thousands of dollars)	
Current Assets			
Cash and equivalents	**$ 43,318**	$ 54,032	$ 59,799
Short-term investments	**2,394**	6,018	12,069
Accounts receivable, less allowances of $13,614, $13,575 and $13,035, respectively	**631,771**	602,485	584,653
Prepaid expenses and other current assets	**24,903**	22,801	15,012
Deferred taxes	**52,209**	50,832	48,343
Total current assets	**754,595**	736,168	719,876
Property and Equipment			
Land and buildings	**44,971**	49,458	44,135
Equipment, furniture and leasehold improvements	**253,666**	231,654	179,707
Accumulated depreciation	**(97,552)**	(94,112)	(77,491)
Total property and equipment	**201,085**	187,000	146,351
Intangibles and Other Assets	**133,896**	110,523	98,020
Total Assets	**$ 1,089,576**	$ 1,033,691	$ 964,247

See accompanying Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2000	1999	1998
		(In thousands of dollars)	
Current Liabilities			
Short-term borrowings	**$ 57,839**	$ 47,210	$ 47,629
Accounts payable	**69,375**	73,516	79,089
Payroll and related taxes	**234,807**	215,706	195,670
Accrued insurance	**55,272**	65,881	66,830
Income and other taxes	**48,814**	49,005	37,265
Total current liabilities	**466,107**	451,318	426,483
Stockholders' Equity			
Capital stock, $1.00 par value			
Class A common stock, shares issued 36,609,040 at 2000, 36,602,210 at 1999 and 36,540,770 at 1998	**36,609**	36,602	36,541
Class B common stock, shares issued 3,506,826 at 2000, 3,513,656 at 1999 and 3,575,096 at 1998	**3,507**	3,514	3,575
Treasury stock, at cost			
Class A common stock, 4,363,578 shares at 2000, 4,234,524 at 1999 and 4,301,321 at 1998	**(84,251)**	(80,538)	(81,669)
Class B common stock, 12,817 shares at 2000 and 7,767 at 1999 and 1998	**(371)**	(248)	(248)
Paid-in capital	**16,371**	15,761	14,844
Earnings invested in the business	**675,388**	623,564	572,517
Accumulated foreign currency adjustments	**(23,784)**	(16,282)	(7,796)
Total stockholders' equity	**623,469**	582,373	537,764
Total Liabilities and Stockholders' Equity	**$ 1,089,576**	$ 1,033,691	$ 964,247

See accompanying Notes to Financial Statements.

Statements of Stockholders' Equity

Kelly Services, Inc. and Subsidiaries

	2000	1999	1998[1]
		(In thousands of dollars)	
Capital Stock			
Class A common stock			
Balance at beginning of year	**$ 36,602**	$ 36,541	$ 36,538
Conversions from Class B	**7**	61	3
Balance at end of year	**36,609**	36,602	36,541
Class B common stock			
Balance at beginning of year	**3,514**	3,575	3,578
Conversions to Class A	**(7)**	(61)	(3)
Balance at end of year	**3,507**	3,514	3,575
Treasury Stock			
Class A common stock			
Balance at beginning of year	**(80,538)**	(81,669)	(6,029)
Exercise of stock options, restricted stock awards and other	**1,379**	1,438	144
Treasury stock issued for acquisitions	**522**	244	102
Purchase of treasury stock	**(5,614)**	(551)	(75,886)
Balance at end of year	**(84,251)**	(80,538)	(81,669)
Class B common stock			
Balance at beginning of year	**(248)**	(248)	(185)
Purchase of treasury stock	**(123)**	—	(63)
Balance at end of year	**(371)**	(248)	(248)
Paid-in Capital			
Balance at beginning of year	**15,761**	14,844	10,980
Exercise of stock options, restricted stock awards and other	**498**	808	3,036
Treasury stock issued for acquisitions	**112**	109	828
Balance at end of year	**16,371**	15,761	14,844
Earnings Invested in the Business			
Balance at beginning of year	**623,564**	572,517	522,039
Net earnings	**87,176**	85,110	84,715
Dividends	**(35,352)**	(34,063)	(34,237)
Balance at end of year	**675,388**	623,564	572,517
Accumulated Foreign Currency Adjustments			
Balance at beginning of year	**(16,282)**	(7,796)	(7,092)
Equity adjustment for foreign currency	**(7,502)**	(8,486)	(704)
Balance at end of year	**(23,784)**	(16,282)	(7,796)
Stockholders' Equity at end of year	**$ 623,469**	$ 582,373	$ 537,764
Comprehensive Income			
Net earnings	**$ 87,176**	$ 85,110	$ 84,715
Other comprehensive income — Foreign currency adjustments	**(7,502)**	(8,486)	(704)
Comprehensive income	**$ 79,674**	$ 76,624	$ 84,011

See accompanying Notes to Financial Statements.

(1) Fiscal year included 53 weeks.

Notes to Financial Statements

Kelly Services, Inc. and Subsidiaries

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

1. Summary of Significant Accounting Policies

Fiscal Year The Company's fiscal year ends on the Sunday nearest to December 31. The three most recent years ended on December 31, 2000 (2000), January 2, 2000 (1999) and January 3, 1999 (1998).

Principles of Consolidation The financial statements include the accounts and operations of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

Foreign Currency Translation Substantially all of the Company's international subsidiaries use their local currency as their functional currency. Revenue and expense accounts of foreign subsidiaries are translated to U.S. dollars at average exchange rates, while assets and liabilities are translated to U.S. dollars at year-end exchange rates. Resulting translation adjustments are reported as accumulated foreign currency adjustments in stockholders' equity.

Revenue Recognition Revenue from sales of services is recognized as services are provided by the temporary, contract or leased employees. Revenue from permanent placement services is recognized at the time the permanent placement candidate begins full-time employment.

Advertising Expenses Advertising expenses, which are expensed as incurred, were $15,800, $15,000 and $14,000 in 2000, 1999 and 1998, respectively.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Cash and Equivalents Cash and equivalents are stated at cost, which approximates market. The Company considers securities with original maturities of three months or less to be cash and equivalents.

Property and Equipment Property and equipment are stated at cost and are depreciated over their estimated useful lives, principally by the straight-line method. Estimated useful lives range from 15 to 45 years for land improvements, buildings and building improvements, 5 years for equipment, furniture and leasehold improvements and 3 to 12 years for computer hardware and software. The Company capitalizes professional fees and internal payroll costs incurred in the development of software for internal use in accordance with Statement of Position 98-1. Depreciation expense was $37,200 for 2000, $33,900 for 1999 and $25,400 for 1998.

Intangible Assets Purchased intangible assets, other than goodwill, are valued at acquisition cost and are amortized over their respective useful lives (up to 10 years) on a straight-line basis. Goodwill derived from acquisitions is capitalized and amortized over periods ranging from 20 to 40 years. The Company periodically assesses the recoverability of its goodwill based upon projected future cash flows.

Restatements Certain prior year amounts have been reclassified to conform with the current presentation.

2. Short-term Investments

Short-term investments are classified as available for sale and include federal, state and local government obligations of approximately 40% in 2000, 60% in 1999 and 80% in 1998. The entire short-term investments balance in 2000 and 1998 was due within one year. Short-term investments due within one year totaled $5,800 in 1999, with the balance due within two years. The carrying amounts approximate market value at December 31, 2000, January 2, 2000 and January 3, 1999.

Interest income was $2,770, $2,272 and $6,206, respectively, for the years 2000, 1999 and 1998.

3. Land Sale

On October 9, 2000, the Company sold undeveloped land for $10,309. The Company recognized a pretax gain of $8,567, which is included in selling, general and administrative expenses. The proceeds from the sale of property were used on January 8, 2001 for the purchase of an office building that will be utilized by the Company for future expansion. For tax purposes, the transaction will be treated as an IRS Code Section 1031 tax-free exchange.

4. Intangibles and Other Assets

Intangibles and other assets include goodwill of $86,900, $67,900 and $64,100 at year-ends 2000, 1999 and 1998, respectively. Accumulated amortization of goodwill at 2000, 1999 and 1998 was $9,500, $7,900 and $6,900, respectively. Goodwill and other intangible amortization expense was $2,300 in 2000 and 1999 and $3,500 in 1998.

Other assets include investments used to fund a nonqualified retirement plan and cash values of life insurance on the lives of certain officers and key employees.

Notes to Financial Statements

Kelly Services, Inc. and Subsidiaries
(In thousands of dollars except share and per share items)

5. Short-term Borrowings

The Company has a committed $100 million, five-year multi-currency revolving credit facility to be used to fund working capital, acquisitions, and for general corporate purposes. The facility expires in 2003. The interest rate applicable to borrowings under the line of credit is 20 basis points over LIBOR and may include additional costs if the funds are drawn from certain countries. Borrowings under this arrangement were $50,382, $47,210 and $47,629 at year-ends 2000, 1999 and 1998, respectively.

During September 2000, the Company arranged an $8,250 one-year credit facility to be used to fund its Singapore acquisition. At December 31, 2000, the outstanding balance totaled $7,457 at a weighted average interest rate of 3.7%.

All of the borrowings are foreign currency denominated and support the Company's international working capital position. The carrying amounts of the Company's borrowings under the lines of credit described above approximate their fair values.

Interest expense, interest payments and weighted average interest rates related to the short-term borrowings for 2000, 1999 and 1998 were as follows:

	2000	1999	1998
Interest expense	$ 3,179	$ 2,513	$ 3,207
Interest payments	2,672	2,567	3,956
Weighted average interest rate	5.5%	4.6%	5.3%

6. Capitalization

The authorized capital stock of the Company is 100,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock. Class A shares have no voting rights and are not convertible. Class B shares have voting rights and are convertible into Class A shares on a share-for-share basis at any time. Both classes of stock have identical rights in the event of liquidation.

During 2000, the Company repurchased 227,500 shares of its Class A common stock. The total value of the Class A shares repurchased was $5,614. The Company also repurchased 5,050 shares of its Class B common stock during 2000 at a total cost of $123. During December 1999, the Company repurchased 22,500 shares of its Class A common stock. The total value of the Class A shares repurchased was $551. During 1998, the Company repurchased 2,500,000 shares of its Class A common stock in negotiated transactions from the William R. Kelly Trust. The total value of the Class A shares repurchased was $75,886. In addition, the Company repurchased 1,937 Class B shares at a total cost of $63.

7. Earnings Per Share

The reconciliations of earnings per share computations for the fiscal years 2000, 1999 and 1998 were as follows:

	2000	1999	1998
Net earnings	$ 87,176	$ 85,110	$ 84,715
Determination of shares (thousands):			
Weighted average common shares outstanding	35,721	35,854	37,745
Effect of dilutive securities:			
Stock options	—	41	90
Restricted and performance awards and other	122	135	110
Weighted average common shares outstanding — assuming dilution	35,843	36,030	37,945
Earnings per share — basic	$ 2.44	$ 2.37	$ 2.24
Earnings per share — assuming dilution	$ 2.43	$ 2.36	$ 2.23

Stock options to purchase 2,309,000, 1,162,000 and 458,000 shares of common stock at a weighted average price per share of $27.30, $31.52 and $35.17 were outstanding during 2000, 1999 and 1998, respectively, but were not included in the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common shares and the options were therefore anti-dilutive.

8. Supplemental Cash Flow Information

Changes in certain working capital components, as disclosed in the statements of cash flows, for the years 2000, 1999 and 1998 were as follows:

	2000	1999	1998
Increase in accounts receivable	$(31,748)	$(26,972)	$(12,712)
Increase in prepaid expenses and other current assets	(2,997)	(9,138)	(2,277)
Increase in deferred taxes	(593)	(2,678)	(6,501)
Increase (decrease) in accounts payable	(5,678)	(3,059)	16,582
Increase (decrease) in payroll and related taxes	22,208	23,614	(1,219)
Increase (decrease) in accrued insurance	(10,590)	(924)	5,755
Increase in income and other taxes	181	13,273	3,297
Total	$(29,217)	$ (5,884)	$ 2,925

Cash flows from short-term investments for 2000, 1999 and 1998 were as follows:

	2000	1999	1998
Sales/Maturities	$ 937,084	$ 905,326	$ 1,645,815
Purchases	(933,460)	(899,275)	(1,590,583)
Total	$ 3,624	$ 6,051	$ 55,232

9. Retirement Benefits

The Company provides a qualified defined contribution plan covering substantially all full-time employees, except officers and certain other management employees. Upon approval by the Board of Directors, a contribution based on eligible wages is funded annually. The plan offers a savings feature with Company matching contributions. Assets of this plan are held by an independent trustee for the sole benefit of participating employees.

A nonqualified benefit plan is provided for officers and certain other management employees. Upon approval by the Board of Directors, a contribution based on eligible wages is set aside annually. This plan also includes provisions for salary deferrals and Company matching contributions.

Amounts provided for retirement benefits totaled $5,300 in 2000, $7,600 in 1999 and $7,000 in 1998.

10. Income Taxes

Pretax income (loss) for the years 2000, 1999 and 1998 was taxed under the following jurisdictions:

	2000	1999	1998
Domestic	$ 149,431	$ 134,572	$ 134,731
Foreign	(4,155)	9,138	8,884
Total	$ 145,276	$ 143,710	$ 143,615

The provision for income taxes was as follows:

	2000	1999	1998
Current tax expense:			
U.S. federal	$ 43,151	$ 42,898	$ 47,599
U.S. state and local	10,840	11,500	12,000
Foreign	4,702	6,880	5,802
Total current	58,693	61,278	65,401
Total deferred	(593)	(2,678)	(6,501)
Total provision	$ 58,100	$ 58,600	$ 58,900

Deferred tax assets (liabilities) are comprised of the following:

	2000	1999	1998
Depreciation and amortization	$ (8,628)	$ (6,420)	$ (5,307)
Employee compensation and benefit plans	26,055	23,276	22,845
Workers' compensation	19,127	22,352	22,428
Bad debt reserves	4,237	3,896	3,789
Loss carryforwards	6,271	4,793	3,453
Other, net	6,728	6,053	4,198
Valuation allowance	(1,581)	(3,118)	(3,063)
Total deferred tax assets	52,209	50,832	48,343
Total deferred tax liabilities	(741)	(1,044)	(1,279)
Total	$ 51,468	$ 49,788	$ 47,064

The differences between income taxes for financial reporting purposes and the U.S. statutory rate are as follows:

	2000	1999	1998
Income tax based on statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.9	5.2	5.4
Other, net	0.1	0.6	0.6
Total	40.0%	40.8%	41.0%

The net tax effect of foreign loss carryforwards at December 31, 2000 totaled $6,271 which expire as follows:

Year	Amount
2001-2003	$ —
2004-2006	320
2007-2010	1,261
No expiration	4,690
Total	$ 6,271

The Company has established a valuation allowance for loss carryforwards related to certain foreign operations, which management believes may not be realizable.

Provision has not been made for U.S. or additional foreign income taxes on an estimated $11,100 of undistributed earnings of foreign subsidiaries, which are permanently reinvested. If such earnings were to be remitted, management believes that U.S. foreign tax credits would largely eliminate any such U.S. and foreign income taxes.

The Company paid income taxes of $58,800 in 2000, $53,400 in 1999 and $65,700 in 1998.

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

11. Performance Incentive Plan

Under the Performance Incentive Plan (the "Plan"), the Company may grant stock options (both incentive and nonqualified), stock appreciation rights (SARs), restricted awards and performance awards to key employees utilizing the Company's Class A stock. Stock options may not be granted at prices less than the fair market value on the date of grant, nor for a term exceeding 10 years. The Plan provides that the maximum number of shares available for grants is 10 percent of the outstanding Class A stock, adjusted for Plan activity over the preceding five years. Shares available for future grants at the end of 2000, 1999 and 1998 were 1,283,000, 946,000 and 1,213,000, respectively.

The Company applies Accounting Principles Board Opinion 25 and related Interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized for incentive and nonqualified stock options. If compensation cost had been determined based on the fair value at the grant dates for awards under the Plan consistent with the method of Statement of Financial Accounting Standards 123, Accounting for Stock-Based Compensation, the Company's net income would have been reduced by $1,729, $1,487 and $1,135 for 2000, 1999 and 1998, respectively; basic earnings per share would have been reduced by $.05 in 2000, $.04 in 1999 and $.03 in 1998; and diluted earnings per share would have been reduced by $.05 in 2000, $.04 in 1999 and $.03 in 1998.

Since stock options generally become exercisable over several years and additional grants are likely to be made in future years, the pro forma amounts for compensation cost may not be indicative of the effects on net income and earnings per share for future years.

The fair value of each option included in the following tables is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2000	1999	1998
Dividend yield	4.0%	4.0%	3.0%
Risk-free interest rate	5.9%	5.7%	5.3%
Expected volatility	29.0%	30.0%	31.0%
Expected lives	6 yrs	6 yrs	6 yrs

A summary of the status of stock option grants under the Plan as of December 31, 2000, January 2, 2000 and January 3, 1999, and changes during the years ended on those dates, is presented as follows:

	Options	Weighted Avg. Exercise Price
2000:		
Outstanding at beginning of year	1,592,000	$28.77
Granted	730,000	24.01
Exercised	(2,000)	24.77
Cancelled	(197,000)	27.15
Outstanding at end of year	2,123,000	$27.29
Options exercisable at year end	763,000	$29.05
Weighted average fair value of options granted during the year	$5.98	
1999:		
Outstanding at beginning of year	1,330,000	$30.78
Granted	592,000	25.05
Exercised	(32,000)	26.80
Cancelled	(298,000)	30.54
Outstanding at end of year	1,592,000	$28.77
Options exercisable at year end	552,000	$29.08
Weighted average fair value of options granted during the year	$6.30	
1998:		
Outstanding at beginning of year	1,160,000	$28.68
Granted	448,000	35.16
Exercised	(104,000)	28.15
Cancelled	(174,000)	29.67
Outstanding at end of year	1,330,000	$30.78
Options exercisable at year end	404,000	$28.07
Weighted average fair value of options granted during the year	$10.06	

The following table summarizes information about options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/00	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable as of 12/31/00	Weighted Average Exercise Price
$22.50-24.00	642,000	9.21	$23.97	—	$ —
$24.01-24.50	446,000	8.31	24.48	100,000	24.50
$24.51-28.00	248,000	5.20	26.56	209,000	26.51
$28.01-29.00	244,000	6.45	28.22	137,000	28.19
$29.01-33.00	219,000	5.09	30.57	183,000	30.48
$33.01-38.50	324,000	7.10	35.33	134,000	35.32
$22.50-38.50	2,123,000	7.49	$27.29	763,000	$29.05

Restricted awards are issued to certain key employees and are subject to forfeiture until the end of an established restriction period. Restricted awards totaling 105,400, 87,000 and 14,500 shares were granted under the Plan during 2000, 1999 and 1998, respectively. The weighted average grant date price of such awards was $24.02, $26.55 and $35.64 for 2000, 1999 and 1998, respectively. Restricted awards outstanding totaled 165,000, 104,000 and 36,200 shares at year-ends 2000, 1999 and 1998, respectively, and have a weighted average remaining life of 1.9 years at December 31, 2000.

Under the Plan, performance awards may be granted to certain key employees, the payout of which is determined by the degree of attainment of objectively determinable performance goals over the established relevant performance period. No performance awards were granted during 2000 or 1999. Performance awards totaling 51,500 shares were granted under the Plan during 1998. The weighted average grant date prices of such awards were $34.94 for 1998. There were no unearned performance awards outstanding at December 31, 2000. Unearned performance awards outstanding at year-ends 1999 and 1998 were 70,000 and 115,200, respectively.

Total compensation cost recognized for restricted and performance awards was $2,000, $1,000 and $2,000 for 2000, 1999 and 1998, respectively. As of December 31, 2000, no SARs have been granted under the Plan.

12. Lease Commitments

The Company conducts its field operations primarily from leased facilities. The following is a schedule by fiscal year of future minimum lease commitments as of December 31, 2000:

Fiscal year:	
2001	$ 37,700
2002	29,100
2003	21,000
2004	13,600
2005	8,900
Later years	23,500
Total	$133,800

Lease expense for 2000, 1999 and 1998 amounted to $45,100, $43,100 and $38,600, respectively.

13. Contingencies

The Company is subject to various legal proceedings, claims and liabilities which arise in the ordinary course of its business. Litigation is subject to many uncertainties, the outcome of individual litigated matters is not predictable with assurance and it is reasonably possible that some of the foregoing matters could be decided unfavorably to the Company. Although the amount of the liability at December 31, 2000 with respect to these matters cannot be ascertained, the Company believes that any resulting liability will not be material to the financial statements of the Company at December 31, 2000.

14. Segment Disclosures

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which disaggregates its business by segment. The Company's reportable segments are: (1) U.S. Commercial Staffing, (2) Professional, Technical and Staffing Alternatives (PTSA) and (3) International. The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies."

During 2000, international operations were conducted in Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, the Philippines, Puerto Rico, Russia, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

The following table presents information about the reported operating income of the Company for the fiscal years 2000, 1999 and 1998. Segment data presented is net of intersegment revenues. Asset information by reportable segment is not reported, since the Company does not produce such information internally.

	2000 52 weeks	1999 52 weeks	1998 53 weeks
Sales:			
U.S. Commercial Staffing	$2,332,900	$2,247,000	$2,262,700
PTSA	1,052,900	937,800	864,800
International	1,101,500	1,084,300	964,800
Consolidated Total	$4,487,300	$4,269,100	$4,092,300
Earnings from Operations:			
U.S. Commercial Staffing	$ 189,700	$ 198,000	$ 197,400
PTSA	72,800	55,600	44,000
International	22,500	33,600	29,200
Corporate	(139,300)	(143,200)	(130,000)
Consolidated Total	$ 145,700	$ 144,000	$ 140,600

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

Specified items included in segment earnings for the fiscal years 2000, 1999 and 1998 were as follows:

	2000 52 weeks	1999 52 weeks	1998 53 weeks
Depreciation and Amortization:			
U.S. Commercial Staffing	$ 5,881	$ 5,911	$ 6,237
PTSA	2,597	2,395	1,977
International	11,137	11,228	10,262
Corporate	19,850	16,704	10,389
Consolidated Total	$ 39,465	$ 36,238	$ 28,865
Interest Income:			
U.S. Commercial Staffing	$ —	$ —	$ —
PTSA	107	23	141
International	630	615	783
Corporate	2,033	1,634	5,282
Consolidated Total	$ 2,770	$ 2,272	$ 6,206
Interest Expense:			
U.S. Commercial Staffing	$ —	$ —	$ —
PTSA	—	—	—
International	3,020	2,389	3,207
Corporate	159	124	—
Consolidated Total	$ 3,179	$ 2,513	$ 3,207

A summary of long-lived assets information by geographic area as of the years ended 2000, 1999 and 1998 follows:

	2000	1999	1998
Long-Lived Assets:			
Domestic	$ 256,300	$ 223,000	$ 170,500
International	78,700	74,500	73,900
Total	$ 335,000	$ 297,500	$ 244,400

Long-lived assets include Property and Equipment and Intangibles and Other Assets. No single foreign country's long-lived assets were material to the consolidated long-lived assets of the Company.

Foreign revenue is based on the country in which the legal subsidiary is domiciled. No single foreign country's revenue was material to the consolidated revenues of the Company.

Financial Review

Kelly Services, Inc. and Subsidiaries

Results of Operations

2000 versus 1999

Sales reached a record $4.487 billion in 2000, an increase of 5.1% compared to the $4.269 billion for 1999. Sales in the U.S. Commercial Staffing segment grew by 3.8% for the full year. Sales growth improved consistently from a decrease of 0.4% in the first quarter, to 2.0%, 5.8% and 7.8% growth in the second, third and fourth quarters, respectively. Professional, Technical and Staffing Alternatives (PTSA) sales grew by 12.3% compared to last year. Within the PTSA segment, growth was particularly strong in the science, healthcare and staff leasing business units.

The strong U.S. dollar significantly weakened translated sales for the International segment. International sales grew by 1.6% as compared to 1999. However, on a constant currency basis, international sales growth was 9.9%. International sales represented 25% of total Company sales in 2000 and 1999.

The 2000 gross profit rate averaged 17.7%, which was 0.2% lower than the 17.9% rate earned in 1999. This reflected an increase in the gross profit rate of PTSA, offset by lower rates in the U.S. Commercial and International segments.

Selling, general and administrative expenses expressed as a percentage of sales were 14.4% as compared to 14.6% last year. Selling, general and administrative expenses in 2000 included a pretax gain on the sale of undeveloped land of $8.6 million. Excluding the gain on the sale of land, the selling, general and administrative rate would have been 14.6%, consistent with the prior year. Additionally, the expense rate in 2000 reflected the elimination of Year 2000 Project costs, offset in part by increased depreciation expenses associated with the Company's technology investments.

Earnings from operations totaled $145.7 million, a 1.2% increase from the $144.0 million reported for 1999. Earnings were 3.2% of sales as compared to 3.4% for 1999.

U.S. Commercial earnings decreased 4.2% in 2000, due to a continued shift to larger corporate account business, which negatively impacted gross margins and operating earnings. U.S. Commercial gross margins may continue to decrease in 2001 as the Company pursues its strategy of shifting the customer mix to a larger proportion of large corporate and national accounts.

PTSA earnings increased 31.0% from 1999, reflecting sales growth of 12.3%, combined with a significant gross profit rate increase and favorable expense leverage.

International earnings decreased 33.2% from 1999, reflecting the impact of unfavorable foreign currency translation on international results. In addition, significantly lower operating results in the U.K. reflected the slowing economy and the costs associated with turnover of senior country management positions.

Net interest expense was $409 thousand compared to $241 thousand last year. This reflected higher average borrowing levels and higher interest rates throughout the year.

The effective income tax rate was 40.0% in 2000 as compared to 40.8% in 1999, reflecting continued reductions in the Company's consolidated state and local tax rate.

Net earnings totaled a record $87.2 million in 2000, a 2.4% increase over 1999. The rate of return on sales was 1.9%, compared with last year's 2.0% rate. Basic earnings per share were $2.44 or 3.0% over last year. Diluted earnings per share for 2000 were $2.43, a 3.0% increase compared to $2.36 for 1999.

Results of Operations

1999 versus 1998

Sales for the 52-week fiscal year reached $4.269 billion in 1999, an increase of 4.3% compared to the $4.092 billion for the 53-week fiscal year in 1998. Sales increased 5.6% when compared to an adjusted 52-week 1998 period. Sales in the U.S. Commercial Staffing segment declined slightly by 0.7% compared to the 53-week 1998, while PTSA sales grew by 8.4% compared to the prior year. International sales grew by 12.4% as compared to 1998. International sales represented 25% of total Company sales in 1999, as compared to 24% in 1998.

The 1999 gross profit rate averaged 17.9%, which was consistent with the 17.9% rate earned in 1998.

Selling, general and administrative expenses expressed as a percentage of sales were 14.6% as compared to 14.4% in 1998. The increase in expenses as a percentage of sales was attributable to the Year 2000 Project expenses and increased depreciation associated with the deployment of the Oracle finance and administration systems, and proprietary front office branch automation technology.

Earnings from operations totaled $144.0 million, a 2.4% increase from the $140.6 million reported for the 53-week 1998. Earnings were 3.4% of sales as compared to 3.4% for the 53-week period in 1998.

Net interest expense was $0.2 million compared to prior year's net interest income of $3.0 million. The decrease was attributable to lower cash balances than in 1998, as a result of a 30% increase in capital expenditures, and $76 million utilized in the share repurchase program, which was completed midway through the fourth quarter of 1998.

The effective income tax rate was 40.8%, slightly lower than prior year's 41.0% rate, reflecting reductions in the Company's consolidated state and local tax rate.

Financial Review

Kelly Services, Inc. and Subsidiaries

Net earnings totaled $85.1 million in 1999, a 0.5% increase over the 53-week 1998. The rate of return on sales was 2.0%, compared with prior year's 2.1% rate. Basic earnings per share were $2.37 or 5.8% over 1998. Diluted earnings per share for 1999 were $2.36, a 5.8% increase compared to $2.23 for the 53-week 1998.

Liquidity and Capital Resources

Cash and short-term investments totaled $46 million at the end of 2000, down from $60 million at year-end 1999.

Accounts receivable totaled $632 million at year end as compared to $602 million at year-end 1999. The global days sales outstanding were 51 days, which is consistent with 1999. Global DSO may increase in 2001 if U.S. economic growth slows.

Short-term debt totaled $58 million, which is up from $47 million last year, primarily reflecting an acquisition in Singapore. All short-term borrowings are foreign currency denominated and provide a partial balance sheet hedge against foreign exchange fluctuations.

The Company's working capital position was $288 million at the end of 2000, an increase of $4 million from 1999 and decrease of $5 million from 1998. The current ratio was 1.6 in 2000 and 1999 and 1.7 in 1998.

Capital expenditures for 2000 totaled $54 million, a planned decrease from the $77 million spent in 1999. For 2001, capital expenditures are expected to total between $50 to $55 million, and will be funded primarily by cash generated from operations. In addition, in January 2001, the Company purchased a fully leased commercial office building and the underlying land at a cost of $11.8 million. The building will be used for future business expansion.

Assets totaled $1.090 billion in 2000 compared to $1.034 billion in 1999. In 1998, assets totaled $964 million. The return on average assets was 8.2% in 2000, 8.5% in 1999 and 8.8% in 1998.

Stockholders' equity was $623 million in 2000, which represents 7.1% growth over 1999. In 1999, stockholders' equity was 8.3% above 1998. The return on average stockholders' equity was 14.5% in 2000, 15.2% in 1999 and 15.4% in 1998. Dividends paid per common share were $.99 in 2000, an increase of 4.2% over 1999 dividends of $.95 per share. Dividends in 1998 were $.91 per share.

The Company's financial position remains strong. The Company continues to carry no long-term debt and expects to meet its growth requirements principally through cash generated from operations.

Market Risk-Sensitive Instruments and Positions

The Company 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. This risk is mitigated by the use of the Company's multi-currency line of credit. This credit facility is used to borrow in local currencies which mitigates 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.

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

Adoption of the Euro

A segment of the Company's information technology programs is devoted to changes necessary to deal with the introduction of a European single currency (the euro). The transition period for implementation is January 1, 1999 through January 1, 2002.

The Company does not expect that introduction and use of the euro will result in any material effect on its results of operations.

Forward-Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report relate to future events that are subject to risks and uncertainties, such as: competition, changing market and economic conditions, currency fluctuations, changes in laws and regulations, the Company's ability to effectively implement and manage its information technology programs and other factors discussed in the report and in the Company's filings with the Securities and Exchange Commission. Actual results may differ materially from any projections contained herein.

Report of Independent Accountants

To the Stockholders and Board of Directors of
Kelly Services, Inc.

In our opinion, the accompanying balance sheets and the related statements of earnings, of cash flows and of stockholders' equity, as set forth on pages 16 through 26, present fairly, in all material respects, the financial position of Kelly Services, Inc. and its subsidiaries at December 31, 2000, January 2, 2000 and January 3, 1999, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Detroit, Michigan
January 23, 2001

Selected Quarterly Financial Data (unaudited)

Kelly Services, Inc. and Subsidiaries

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(In thousands of dollars except per share items)				
Sales of services					
2000	**$1,080,069**	**$1,106,740**	**$1,154,480**	**$1,146,002**	**$4,487,291**
1999	1,025,959	1,066,783	1,092,002	1,084,369	4,269,113
1998 (53 weeks)	959,382	1,001,286	1,032,875	1,098,708	4,092,251
Cost of services					
2000	**892,095**	**909,731**	**948,683**	**944,473**	**3,694,982**
1999	846,828	876,809	893,900	885,515	3,503,052
1998 (53 weeks)	791,472	823,542	846,094	899,868	3,360,976
Selling, general and administrative					
2000	**161,406**	**160,342**	**162,017**	**162,859**	**646,624**
1999	153,539	154,841	155,390	158,340	622,110
1998 (53 weeks)	143,069	143,584	145,404	158,602	590,659
Net earnings					
2000	**16,060**	**21,825**	**26,003**	**23,288**	**87,176**
1999	15,188	20,734	25,018	24,170	85,110
1998 (53 weeks)	15,064	20,623	24,903	24,125	84,715
Basic earnings per share(1)					
2000	**.45**	**.61**	**.73**	**.65**	**2.44**
1999	.42	.58	.70	.67	2.37
1998 (53 weeks)	.39	.54	.65	.66	2.24
Diluted earnings per share(1)					
2000	**.45**	**.61**	**.73**	**.65**	**2.43**
1999	.42	.58	.69	.67	2.36
1998 (53 weeks)	.39	.54	.65	.66	2.23
Dividends per share					
2000	**.24**	**.25**	**.25**	**.25**	**.99**
1999	.23	.24	.24	.24	.95
1998	.22	.23	.23	.23	.91

(1) Earnings per share amounts for each quarter are required to be computed independently and may not equal the amounts computed for the total year.

Common Stock Price Information

Kelly Services, Inc. and Subsidiaries

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2000					
Class A common					
High	$ 26.25	$ 25.00	$ 26.88	$ 29.00	$ 29.00
Low	23.00	22.06	22.13	20.25	20.25
Final	23.94	23.13	23.63	23.63	23.63
Class B common					
High	26.75	24.13	24.81	25.50	26.75
Low	22.00	22.50	24.00	24.50	22.00
Final	23.00	24.13	24.75	24.56	24.56
1999					
Class A common					
High	32.50	32.50	31.63	30.75	32.50
Low	24.13	25.00	25.38	22.88	22.88
Final	26.75	31.50	27.81	25.13	25.13
Class B common					
High	29.38	29.75	30.88	29.88	30.88
Low	28.25	26.25	23.75	24.00	23.75
Final	29.00	28.75	28.00	24.00	24.00
1998					
Class A common					
High	37.75	38.50	35.63	35.13	38.50
Low	29.25	30.25	25.63	23.75	23.75
Final	37.13	32.38	28.38	31.75	31.75
Class B common					
High	58.75	38.00	36.25	33.50	58.75
Low	29.50	34.00	29.00	28.75	28.75
Final	38.00	34.50	29.00	31.00	31.00

Stockholders' Information

Kelly Services, Inc. and Subsidiaries

Kelly Services, Inc.
Corporate Headquarters
999 West Big Beaver Road
Troy, Michigan 48084
(248) 362-4444
www.kellyservices.com

Annual Meeting
The Annual Meeting of stockholders will be held on Monday, May 14, 2001 at 11:00 a.m. (EST), at the Corporate Headquarters of the Company. All stockholders are invited to attend.

Stock Transfer Agent & Registrar
State Street Bank & Trust Company
C/O Equiserve, L.P.
P.O. Box 43011
Providence, RI 02940-3011

For assistance with transfers of stock to another name, lost or destroyed stock certificates, lost dividend checks, direct deposit of dividends, consolidation of accounts or change of addresses, please contact Equiserve toll free at (800) 829-8259, 8:00 a.m. – 5:00 p.m. (EST), or visit their website address – www.equiserve.com. You may also contact Kelly's Director of Investor Relations.

Independent Accountants
PricewaterhouseCoopers LLP
400 Renaissance Center
Detroit, Michigan 48243

Financial Reports for Stockholders
Stockholders, security analysts and interested investors may obtain additional quantities of this annual report, the Company's quarterly reports, as well as a copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K, without charge, by addressing requests to the Director of Investor Relations at the Corporate Headquarters. Quarterly financial information can also be found at the Kelly Services website.

Investor Relations Contact
Director, Investor Relations
Kelly Services, Inc.
999 West Big Beaver Road
Troy, Michigan 48084
Telephone: (248) 244-4586

Dividend Reinvestment and Direct Stock Purchase Plan
Registered shareholders can purchase additional shares of Kelly's Class A common stock through Kelly's Dividend Reinvestment and Direct Stock Purchase Plan. Initial purchases of Kelly's Class A common stock can also be made through this Plan. Participation is voluntary and allows for automatic reinvestment of cash dividends, direct cash investments, and safekeeping of stock certificates. For more information about this service visit our website address: www.kellyservices.com and select Investor Relations or contact Investor Relations at Kelly.

Stock Listings
Kelly Services Class A and Class B common stock trade on the Nasdaq Stock Market℠ under the symbols: KELYA and KELYB.

List of Trademarks in this Annual Report
The following is a list of trademarks of Kelly Services, Inc. used in the 2000 Annual Report to Stockholders: Asia's Own Quality Staffing Company, BTI Consultants, Business Trends, Extra ETT, Kelly, Kelly Automotive Services, KellyConnect, Kelly Educational Staffing, Kelly HR Consulting, Kelly Scientific Resources, Kelly Science Learning Center, Kelly Services, KSR, and ProStaff.

Forward-Looking Statements
This report contains forward-looking statements relating to future events that are subject to risks and uncertainties more fully described on page 28. Actual results may differ materially.

KELLY SERVICES

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