

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 2, 1994

OR

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

Commission File Number 0-1088

KELLY SERVICES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

38-1510762

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

999 WEST BIG BEAVER ROAD, TROY, MICHIGAN 48084

(Address of principal executive offices)
(Zip Code)

(810) 362-4444

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

At November 7, 1994, 34,358,941 shares of Class A and 3,603,124 shares of Class B common stock of the Registrant were outstanding.

KELLY SERVICES, INC. AND SUBSIDIARIES

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KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF EARNINGS
(UNAUDITED)

(In thousands of dollars except per share items)

	13 Weeks Ended		39 Weeks Ended	
	Oct. 2, 1994	Oct. 3, 1993	Oct. 2, 1994	Oct. 3, 1993
Sales of services	\$630,196	\$517,585	\$1,731,200	\$1,450,273
Cost of services	505,668	416,904	1,395,135	1,170,534
Gross profit	124,528	100,681	336,065	279,739
Selling, general and administrative expenses	95,070	79,541	271,605	235,915
Earnings from operations	29,458	21,140	64,460	43,824
Interest income	1,661	1,538	4,832	5,242
Earnings before income taxes	31,119	22,678	69,292	49,066
Income taxes:				
Federal	9,440	6,695	20,960	14,015
State and other	2,390	1,955	5,390	4,135
Total income taxes	11,830	8,650	26,350	18,150
Net earnings	\$ 19,289	\$ 14,028	\$ 42,942	\$ 30,916
Earnings per share	\$.51	\$.37	\$1.13	\$.82
Dividends per share	\$.18	\$.16	\$.52	\$.472
Average shares outstanding (thousands)	37,960	37,725	37,954	37,722

See accompanying Note to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF OCTOBER 2, 1994 AND JANUARY 2, 1994
(UNAUDITED)
(In thousands of dollars)

ASSETS	1994	1993

CURRENT ASSETS:		
Cash and equivalents	\$ 34,735	\$ 36,020
Short-term investments (at cost which approximates market)	133,172	144,988
Accounts receivable, less allowances of \$6,425 and \$4,735, respectively	321,136	248,161
Prepaid expenses and other current assets	19,543	17,881
	-----	-----
Total current assets	508,586	447,050
PROPERTY AND EQUIPMENT:		
Land and buildings	32,426	29,882
Equipment, furniture and leasehold improvements	93,275	82,227
Accumulated depreciation	(56,967)	(43,827)
	-----	-----
Total property and equipment	68,734	68,282
OTHER ASSETS	45,182	26,768
	-----	-----
TOTAL ASSETS	\$622,502	\$542,100
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable	\$ 36,444	\$ 24,621
Payroll and related taxes	108,595	68,451
Accrued insurance	49,142	51,841
Income and other taxes	9,511	10,968
	-----	-----
Total current liabilities	203,692	155,881
	-----	-----
STOCKHOLDERS' EQUITY:		
Capital stock, \$1 par value	40,116	40,116
Treasury stock, 2,155 shares in 1994 and 2,361 shares in 1993, respectively, at cost	(6,183)	(6,702)
Paid-in capital	5,818	679
Earnings invested in the business	379,059	352,126
	-----	-----
Total stockholders' equity	418,810	386,219
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$622,502	\$542,100
	=====	=====

See accompanying Note to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended		39 Weeks Ended	
	Oct. 2, 1994	Oct. 3, 1993	Oct. 2, 1994	Oct. 3, 1993
Capital Stock				
Class A common stock				
Balance at beginning of period	\$ 36,507	\$ 36,507	\$ 36,507	\$ 29,195
Five-for-four stock split	--	--	--	7,301
Conversions from Class B	--	--	--	11
Balance at end of period	36,507	36,507	36,507	36,507
Class B common stock				
Balance at beginning of period	3,609	3,609	3,609	2,898
Five-for-four stock split	--	--	--	722
Conversions to Class A	--	--	--	(11)
Balance at end of period	3,609	3,609	3,609	3,609
Treasury Stock				
Balance at beginning of period	(6,138)	(6,700)	(6,702)	(6,736)
Exercise of stock options	(45)	(18)	(10)	18
Treasury stock issued for acquisition	--	--	529	--
Balance at end of period	(6,183)	(6,718)	(6,183)	(6,718)
Paid-in Capital				
Balance at beginning of period	5,736	--	679	3,629
Exercise of stock options	82	107	336	443
Treasury stock issued for acquisition	--	--	4,803	--
Five-for-four stock split	--	--	--	(3,965)
Balance at end of period	5,818	107	5,818	107
Earnings Invested in the Business				
Balance at beginning of period	364,876	338,486	352,126	338,273
Net earnings	19,289	14,028	42,942	30,916
Cash dividends	(6,833)	(6,036)	(19,737)	(17,805)
Five-for-four stock split	--	--	--	(4,058)
Fractional shares paid	--	--	--	(18)
Equity adjustment for foreign currency translation (cumulative charge of \$2,785 in 1994 and \$4,412 in 1993)	1,727	147	3,728	(683)
Balance at end of period	379,059	346,625	379,059	346,625
Stockholders' Equity at end of period	<u>\$418,810</u>	<u>\$380,130</u>	<u>\$418,810</u>	<u>\$380,130</u>

See accompanying Note to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE 39 WEEKS ENDED OCTOBER 2, 1994 AND OCTOBER 3, 1993
(In thousands of dollars)

	1994	1993
	-----	-----
Cash flows from operating activities:		
Net earnings	\$42,942	\$30,916
Noncash adjustments:		
Depreciation	13,140	10,949
Changes in certain working capital components	(24,797)	(30,530)
	-----	-----
Net cash from operating activities	31,285	11,335
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(13,039)	(9,085)
Short-term investments	11,816	23,036
Increase in other assets	(11,936)	(9,077)
	-----	-----
Net cash from investing activities	(13,159)	4,874
	-----	-----
Cash flows from financing activities:		
Dividend payments	(19,737)	(17,805)
Exercise of stock options	326	461
Fractional shares paid	--	(18)
	-----	-----
Net cash from financing activities	(19,411)	(17,362)
	-----	-----
Net change in cash and equivalents	(1,285)	(1,153)
Cash and equivalents at beginning of period	36,020	29,700
	-----	-----
Cash and equivalents at end of period	\$34,735	\$28,547
	=====	=====

See accompanying Note to Financial Statements.

KELLY SERVICES, INC. AND SUBSIDIARIES

NOTE TO FINANCIAL STATEMENTS
(UNAUDITED)

Acquisition

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In January, 1994, the Company acquired all outstanding stock of Your Staff, Inc., an employee leasing company, through the issuance of Class A common stock shares from treasury. The acquisition has been accounted for using the purchase method of accounting and therefore the accompanying financial statements include the accounts of Your Staff, Inc. since the date of acquisition. Pro forma results of the acquisition, assuming it had been made at the beginning of each period presented, would not be materially different from the results reported.

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION

Results of Operations:

Third Quarter

Sales of services in the third quarter of 1994 totaled \$630,196,000, an increase of 21.8% from the same period in 1993. This increase reflected growth in both domestic and international sales and the inclusion of recent acquisitions.

Cost of services, consisting of payroll and related costs of temporary employees, increased 21.3% in the third quarter as compared to the same period in 1993. Average hourly payroll costs increased 7% over 1993 due to inflation and business mix.

The gross profit rate of 19.8% in the third quarter was .3 percentage point higher than the previous year. Continued improvement in U.S. temporary help margins since the middle of last year has helped to offset pricing pressures in certain European countries.

Selling, general, and administrative expenses of \$95,070,000 in the third quarter increased 19.5% from the same period in 1993. This increase was due to the higher level of business activity, new programs and operating expenses incurred by new acquisitions.

Earnings before taxes were \$31,119,000, an increase of 37.2% compared to the pretax earnings for the same period in 1993. The pretax margin was 4.9% compared to 4.4% in the third quarter of 1993. Income taxes as a percentage of pretax earnings were 38.0%, .1 percentage point lower than the rate applicable to the third quarter of 1993.

Net earnings were \$19,289,000 in the third quarter of 1994, compared to \$14,028,000 in 1993, an increase of 37.5%. Earnings per share were \$.51 compared to the \$.37 earned in the same period last year.

Year-to-Date

Sales of services totaled \$1,731,200,000, an increase of 19.4% from 1993 sales. This increase reflects a continued improvement in year-over-year sales performance and acquisitions.

Cost of services of \$1,395,135,000 was 19.2% higher than last year, reflecting growth in hours volume and inflationary increases in payroll costs during the year.

The gross profit rate was 19.4%, an increase of .1 percentage point from last year.

Selling, general, and administrative expenses of \$271,605,000 were 15.1% higher than last year, reflecting greater business activity and continuing investment in domestic and overseas markets.

Earnings before taxes were \$69,292,000, a 41.2% increase from last year. The pretax margin was 4.0%, an increase of .6 percentage point from last year. Income taxes as a percentage of pretax earnings were 38.0%, 1 percentage point higher than the rate applicable to last year, due to reduced tax exempt investment income.

Net earnings were \$42,942,000 which was 38.9% over 1993. Earnings per share were \$1.13 as compared to \$.82 in 1993.

Financial Condition

Assets totaled \$622,502,000 at October 2, 1994, an increase of 15% over the \$542,100,000 at January 2, 1994. Working capital increased \$2,030,000 in the third quarter and \$13,725,000 since the 1993 year-end.

The quarterly dividend rate applicable to Class A and Class B shares outstanding was \$.18 and \$.16 per share in the third quarters of 1994 and 1993, respectively.

The Company believes it is in a sound financial position to fully meet its current working capital needs and its longer term capital requirements.

Companies for which this report is filed are: Kelly Services, Inc. and its subsidiaries, Kelly Assisted Living Services, Inc., Kelly Properties, Inc., Kelly Professional Services, Inc., Kelly Services (Canada), Ltd., Les Services Kelly (Quebec) Inc., Lenore Simpson Personnel, Ltd., Societe Services Kelly, Kelly Professional Services (France), Inc., Kelly Services (UK), Ltd., Kelly Services (Ireland), Ltd., Kelly Services (Australia), Ltd., Kelly Services (New Zealand), Ltd., Kelly Services (Nederland), B.V., Kelly Services of Denmark, Inc., O.K. Personnel Service Holding S.A., Kelly de Mexico, S.A. de C.V., Kelly Services Norge A.S., KSI Acquisition Corp., Mentrix Corporation and Your Staff, Inc.

The information furnished reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the period in this filing.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

- (a) See Index to Exhibits required by Item 601, Regulation S-K, set forth on page 12 of this filing.
- (b) No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KELLY SERVICES, INC.

Date: November 11, 1994

/s/ R. F. Stoner
R. F. Stoner

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

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

Exhibit No. -----	Description -----	Document -----
4	Rights of security holders are defined in Articles Fourth, Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, and Fifteenth of the Certificate of Incorporation. (Reference is made to Exhibit 3.2 to the Form 10-Q for the quarterly period ended October 3, 1993, filed with the Commission in November, 1993, which is incorporated herein by reference.)	
27	Financial Data Schedule	2

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND STATEMENT OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS	JAN-01-1995	
	OCT-02-1994	
		34,735
		133,172
		327,561
		6,425
		0
	508,586	125,701
		56,967
		622,502
	203,692	0
		40,116
	0	0
		378,694
622,502		0
	1,731,200	0
		1,395,135
		0
		0
		0
		69,292
		26,350
	42,942	0
		0
		0
		42,942
		1.13
		1.13