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

FORM 10-Q

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

For the quarterly period ended September 27, 1998

OR

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

Commission File Number 0-1088

KELLY SERVICES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	38-1510762
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

999 WEST BIG BEAVER ROAD, TROY, MICHIGAN 48084

(Address of principal executive offices)
(Zip Code)

(248) 362-4444

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year,
if changed since last report.)

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

At October 30, 1998, 33,233,618 shares of Class A and 3,567,329 shares of Class B common stock of the Registrant were outstanding.

KELLY SERVICES, INC. AND SUBSIDIARIES

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF EARNINGS
(UNAUDITED)
(In thousands of dollars except per share items)

	13 Weeks Ended		39 Weeks Ended	
	Sept. 27, 1998	Sept. 28, 1997	Sept. 27, 1998	Sept. 28, 1997
Sales of services	$1,032,875	$1,001,209	$2,993,543	$2,841,781
Cost of services	846,094	824,820	2,461,108	2,338,946
Gross profit	186,781	176,389	532,435	502,835
Selling, general and administrative expenses	145,404	136,464	432,057	406,319
Earnings from operations	41,377	39,925	100,378	96,516
Interest income, net	841	62	2,327	552
Earnings before income taxes	42,218	39,987	102,705	97,068
Income taxes	17,315	16,400	42,115	39,810
Net earnings	$ 24,903	$ 23,587	$ 60,590	$ 57,258
Earnings per share:				
Basic	$.65	$.62	$1.58	$1.50
Diluted	.65	.62	1.58	1.50
Average shares outstanding (thousands):				
Basic	38,271	38,101	38,228	38,080
Diluted	38,419	38,281	38,446	38,177
Dividends per share	$.23	$.22	$.68	$.65

KELLY SERVICES, INC. AND SUBSIDIARIES

BALANCE SHEETS AS OF SEPTEMBER 27, 1998 AND DECEMBER 28, 1997
(In thousands of dollars)

ASSETS	1998	1997
CURRENT ASSETS:	(UNAUDITED)	
Cash and equivalents	$ 111,612	$ 76,690
Short-term investments	47,101	67,301
Accounts receivable, less allowances of $13,655 and $12,375, respectively	597,442	572,134
Prepaid expenses and other current assets	57,588	54,847
Total current assets	813,743	770,972
PROPERTY AND EQUIPMENT:		
Land and buildings	43,292	44,405
Equipment, furniture and leasehold improvements	169,836	130,472
Accumulated depreciation	(79,610)	(62,144)
Total property and equipment	133,518	112,733
INTANGIBLES AND OTHER ASSETS	92,217	83,524
TOTAL ASSETS	$1,039,478	$967,229

LIABILITIES & STOCKHOLDERS' EQUITY	1998	1997
CURRENT LIABILITIES:		
Short-term borrowings	$ 41,943	$ 54,958
Accounts payable	68,718	60,408
Payroll and related taxes	229,283	197,092
Accrued insurance	68,992	61,077
Income and other taxes	32,303	33,865
Total current liabilities	441,239	407,400
STOCKHOLDERS' EQUITY:		
Capital stock, $1 par value	40,116	40,116
Treasury stock, 1,819,000 shares in 1998 and 1,953,000 shares in 1997, respectively, at cost	(6,095)	(6,214)
Paid-in capital	14,658	10,980
Earnings invested in the business	556,628	522,039
Accumulated foreign currency adjustments	(7,068)	(7,092)
Total stockholders' equity	598,239	559,829
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$1,039,478	$967,229

KELLY SERVICES, INC. AND SUBSIDIARIES

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

	13 Weeks Ended		39 Weeks Ended	
	Sept. 27, 1998	Sept. 28, 1997	Sept. 27, 1998	Sept. 28, 1997
Capital Stock				
Class A common stock				
Balance at beginning of period	$ 36,541	$ 36,537	$ 36,538	$ 36,527
Conversions from Class B	-	-	3	10
Balance at end of period	36,541	36,537	36,541	36,537
Class B common stock				
Balance at beginning of period	3,575	3,579	3,578	3,589
Conversions to Class A	-	-	(3)	(10)
Balance at end of period	3,575	3,579	3,575	3,579
Treasury Stock				
Balance at beginning of period	(6,143)	(6,104)	(6,214)	(6,197)
Treasury stock issued for acquisition	102	-	102	-
Purchase of treasury stock	(64)	-	(64)	-
Exercise of stock options	-	(124)	28	(92)
Restricted stock awards	10	6	53	67
Balance at end of period	(6,095)	(6,222)	(6,095)	(6,222)
Paid-in Capital				
Balance at beginning of period	13,751	9,080	10,980	8,265
Treasury stock issued for acquisition	828	-	828	-
Exercise of stock options	2	375	2,428	781
Restricted stock awards	77	55	422	464
Balance at end of period	14,658	9,510	14,658	9,510
Earnings Invested in the Business				
Balance at beginning of period	540,526	491,708	522,039	474,409
Net earnings	24,903	23,587	60,590	57,258
Cash dividends	(8,801)	(8,382)	(26,001)	(24,754)
Balance at end of period	556,628	506,913	556,628	506,913
Accumulated Foreign Currency Adjustments				
Balance at beginning of period	(10,958)	(5,964)	(7,092)	306
Equity adjustment for foreign currency	3,890	(1,569)	24	(7,839)
Balance at end of period	(7,068)	(7,533)	(7,068)	(7,533)
Stockholders' Equity at end of period	$598,239	$542,784	$598,239	$542,784
Comprehensive Income				
Net earnings	$ 24,903	$ 23,587	$ 60,590	$ 57,258
Other comprehensive income - Foreign currency adjustments	3,890	(1,569)	24	(7,839)
Comprehensive Income	$ 28,793	$ 22,018	$ 60,614	$ 49,419

KELLY SERVICES, INC. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
(UNAUDITED)
FOR THE 39 WEEKS ENDED SEPTEMBER 27, 1998 AND SEPTEMBER 28, 1997
(In thousands of dollars)

	1998	1997
Cash flows from operating activities:		
Net earnings	$ 60,590	$ 57,258
Noncash adjustments:		
Depreciation and amortization	20,906	19,449
Changes in certain working capital components	18,817	43,863
Net cash from operating activities	100,313	120,570
Cash flows from investing activities:		
Capital expenditures	(39,309)	(26,633)
Proceeds from sales and maturities of short-term investments	1,312,378	1,361,406
Purchases of short-term investments	(1,292,178)	(1,385,142)
Increase in intangibles and other assets	(10,133)	(2,543)
Net cash from investing activities	(29,242)	(52,912)
Cash flows from financing activities:		
(Decrease) increase in short-term borrowings	(13,015)	4,784
Dividend payments	(26,001)	(24,754)
Exercise of stock options and restricted stock awards	2,931	1,220
Purchase of treasury stock	(64)	-
Net cash from financing activities	(36,149)	(18,750)
Net change in cash and equivalents	34,922	48,908
Cash and equivalents at beginning of period	76,690	33,408
Cash and equivalents at end of period	$ 111,612	$ 82,316

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 1998 were $1.03 billion, an increase of 3.2% from the same period in 1997. Sales growth was stronger in professional, technical and European operations, while U.S. office-administrative and electronic assembly sectors grew at a more modest rate.

Cost of services, consisting of payroll and related tax and benefit costs of employees assigned to customers, increased 2.6% in the third quarter as compared to the same period in 1997. Direct wage costs have increased from 1997 at a rate somewhat higher than the general inflation rate, due to strong worldwide demand for labor.

Gross profit of $186.8 million was 5.9% higher than the third quarter of 1997, and gross profit as a percentage of sales increased to 18.1% in 1998 from 17.6% in 1997. Growth in placement fees, along with the strong performance of the professional, technical and European businesses, improved the gross profit margin.

Selling, general and administrative expenses were $145.4 million in the third quarter, an increase of 6.6% over the same period in 1997. Expenses averaged 14.1% of sales as compared to 13.6% in last year's third quarter. The rate of growth of these expenses reflects increased spending for the year 2000 and information technology programs.

Earnings from operations of $41.4 million were 3.6% greater than the third quarter of 1997. Interest income (net) of $0.8 million increased significantly as compared to the third quarter of 1997 due to higher average cash and short-term investment balances.

Earnings before income taxes were $42.2 million, an increase of 5.6%, compared to pretax earnings of $40.0 million for the same period in 1997. The pretax margin was 4.1% as compared to 4.0% in last year's third quarter, due to the effect of higher interest income (net) noted above. Income taxes were 41.0% of pretax income in the third quarters of 1998 and 1997.

Net earnings were $24.9 million in the third quarter of 1998, an increase of 5.6% over the third quarter of 1997. Basic and diluted earnings per share were $.65 compared to $.62 in the same period last year.

Year-to-Date

Sales of services totaled $2.99 billion during the first nine months of 1998, an increase of 5.3% over 1997. This increase reflects modest growth in domestic sales and strong international sales.

Cost of services of $2.46 billion was 5.2% higher than last year, reflecting volume growth and increases in payroll rates due to strong demand for labor worldwide.

Gross profit increased 5.9% in 1998 due to increased sales. The gross profit rate was 17.8% for the first nine months of 1998 compared to 17.7% for 1997. Growth in placement fees from foreign operations offset the effect of sales growth with our largest customers where contracts require special pricing and additional implementation costs.

Selling, general and administrative expenses of $432.1 million were 6.3% higher than last year. The spending rate was 14.4% of sales, 0.1 percentage point above last year's rate. Expenses included the information technology investment program and year 2000 related conversion costs. Strong controls continue to be effective in managing expenses in proper relationship to sales growth.

Earnings before taxes were $102.7 million, an increase of 5.8% over 1997. These earnings averaged a pretax margin of 3.4% in the first nine months of both 1998 and 1997. Income taxes were 41.0% of pretax earnings in the first nine months of 1998 and 1997.

Net earnings were $60.6 million or 5.8% higher than the first nine months of 1997. Basic and diluted earnings per share were $1.58 compared to $1.50 last year. This was an increase of 5.3% over 1997.

Financial Condition

Assets totaled $1.04 billion at September 27, 1998, an increase of 7.5% over the $967.2 million at December 28, 1997. Working capital was $372.5 million, nearly the same as the end of 1997. The current ratio was 1.8 at September 27, 1998 and 1.9 at December 28, 1997.

During the first nine months of 1998, net cash from operating activities was $100.3 million, a decrease of 16.8% over the comparable period in 1997. This decrease resulted principally from a decrease in the growth of accrued liability balances offset by a containment on the growth in the accounts receivable balance. Capital expenditures of $39.3 million in 1998 and $26.6 million in 1997 were principally for expanding and improving the worldwide branch network and developing new information systems.

The quarterly dividend rate applicable to Class A and Class B shares outstanding was $.23 per share in the third quarter of 1998. This represents a 5% increase compared to a dividend rate of $.22 per share in the third quarter of 1997.

During October, 1998, the Company arranged a committed $100 million five year multi-currency revolving credit facility to be used to fund working capital, acquisitions, and general corporate purposes. Through the date of this filing, there have been no borrowings under the revolving credit facility.

The Company's financial position continues to be strong. This strength will allow it to continue to aggressively pursue growth opportunities, while supporting current operations.

YEAR 2000 SYSTEMS UPDATE

The year 2000 problem is an issue regarding computer programs and non-information technology systems that use embedded computer chips such as microcontrollers. Many of these programs are unable to distinguish between a year that begins with "20" instead of the familiar "19" and therefore could fail or produce incorrect results.

In 1995 Kelly Services, Inc. embarked upon a global Year 2000 Project. The project scope includes hardware, software, and embedded chip technology. A formal Project Office was established with executive sponsorship and funding in February, 1997. This initiated a global business system strategy that included a wide-scale Oracle implementation of business and financial systems, plus major enhancements to branch automation systems. Included in these initiatives is the remediation of year 2000 non-compliant systems.

THE COMPANY'S STATE OF READINESS

Plans for remediation of year 2000 non-compliant systems are divided into the following major initiatives: mainframe, client server, domestic and international subsidiaries. The common project phases consist of: inventory all hardware, software and embedded systems; prioritize systems based on business criticality; complete a risk assessment based on interviews with business users and subject matter experts, analysis of date functionality, and vendor documentation; test and decide to upgrade, replace or retire as appropriate; internal certification; return to production. As a part of the risk assessment process, contingency plans will be developed in the event of system failure. Compuware Corporation was selected to assist in the inventory, remediation and testing process.

The inventory and assessment phase is 100% complete for all business areas as of the third quarter of 1998. Remediation and testing is 100% complete for some of the Kelly business units. Overall completion is approximately 60% when all countries and business units are considered. Kelly is on target for 100% remediation of all mission critical customer support systems by year-end 1998. Testing will continue throughout 1999 with planned completion during the third quarter of 1999. Testing teams are in place for mainframe, client server and international. The testing process includes a detailed risk assessment to determine the necessity and scope of testing. In some instances internal certification is recommended without testing, based on the risk assessment. This process will ensure resources remain focused on areas of greatest risk.

External communications and readiness assessments have been distributed to all customers, landlords, vendors, suppliers and facilities for North America. International communications and assessments are 60% complete with a targeted completion by year end 1998. First quarter 1999 analysis of responses received will determine follow-up action including additional contingency planning.

THE COSTS TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES

The total cost of the Year 2000 project is expected to be at least somewhat offset by the additional benefits to be realized by the Company. These include: enhanced functionality at the branch level; a worldwide inventory of information technology and systems; a high level documentation of business processes used by strategic business units; rationalization and standardization of diverse information systems; upgrades and standardization of desktop computing; upgrade of wide area network to remote business units; improved software quality assurance; and clean-up and documentation of older program code.

The total cost of the Year 2000 remediation project is estimated to be approximately $21 million. The total amount incurred to date is $7 million, of which $1 million was expended in 1997 and $6 million expended through the third quarter of 1998. Approximately $4 million of the total cost has been incurred for remediation (code remediation, project management compliance, and risk assessment), nearly $3 million for testing, and the balance for contingency development.

The estimated future cost of completing the Year 2000 project is approximately $14 million to be incurred during the fourth quarter of 1998 and throughout 1999. Of these future costs the Company estimates approximately $8 million will relate to remediation, over $5 million for testing and the balance for contingency activities. Funds for the project are budgeted separately from other Information Technology initiatives. These costs are being expensed as an element of Selling, General and Administrative expense and are funded from cash provided by operations.

THE RISKS OF THE COMPANY'S YEAR 2000 ISSUES

The failure to correct a material Year 2000 problem could result in an interruption, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. It is believed the most significant of risks concern the Year 2000 readiness of third-party customers and suppliers. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition. The Year 2000 Project is expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem and through, in particular, the Year 2000 readiness of its internal systems and processes and its assessment of third party preparedness.

In general, the Company believes all reasonable steps possible have been taken or are in process to ensure operations will continue without disruption. Additionally, in the event of circumstances resulting from the failure of a third party, all reasonable steps will have been taken to ensure appropriate contingency plans exist to minimize the impact of these potential failures.

Forward Looking Statements

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

Companies for which this report is filed are: Kelly Services, Inc. and its subsidiaries, Kelly Assisted Living Services, Inc., Kelly Properties, Inc., Kelly Professional and Technical Services, Inc., Kelly Services (Canada), Ltd., 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., Kelly de Mexico, S.A. de C.V., Kelly Services Norge A.S., KSI Acquisition Corp., Kelly Staff Leasing, Inc., The Wallace Law Registry, Inc., Kelly Services (Suisse) Holding S.A., Kelly Services France S.A., Kelly Formation S.A.R.L., Kelly Services Luxembourg S.A.R.L., Kelly Services Italia S.R.L., Kelly Services Iberia Holding Company, S.L., Kelly Services Empleo E.T.T., S.L., Kelly Services Seleccion y Formacion, S.L., Kelly Services CIS, Inc., ooo Kelly Services CIS, Kelly Services (societa di fornitura di lavaro temporaneo) SpA, Kelly Services Interim, S.A., Kelly Services Deutchland GmbH, Workshop Zeitarbeit GmbH, Workline Personal-Marketing GmbH, Kelly Services Interim (Belgium) S.A., NV and Kelly Services Select (Belgium) S.A., NV.

The information furnished reflects all adjustments, consisting of only normal and recurring items, 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 5. Other Information.

On September 29, 1998, the Company repurchased 1.5 million shares of its Class A common stock (KELYA) in a negotiated transaction from the William R. Kelly Trust. The total value of the share repurchase was $42.2 million, or $28.13 per share, representing a 3.0% discount to the closing market price of KELYA stock on September 23, 1998.

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 14 of this filing.

(b) A report on Form 8-K dated September 11, 1998 was filed by the Company in September, 1998. The report was filed under Item 9, sales of equity securities pursuant to Regulation S.

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 12, 1998

/s/ William K. Gerber
William K. Gerber

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

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

Exhibit No.	Description	Document
4	Rights of security holders are defined in Articles Fourth, Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth and Fifteenth of the Certificate of Incorporation. (Reference is made to Exhibit 3.2 to the Form 10-Q for the quarterly period ended June 30, 1996, filed with the Commission in August, 1996, which is incorporated herein by reference).	
11	Additional Earnings Per Share Information.	2
27.1	Financial Data Schedule for nine months ended September 27, 1998.	3
27.2	Restated Financial Data Schedule for nine months ended September 28, 1997.	4

ADDITIONAL EARNINGS PER SHARE INFORMATION

Kelly Services, Inc. and Subsidiaries

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

	13 Weeks Ended		39 Weeks Ended	
	Sept. 27, 1998	Sept. 28, 1997	Sept. 27, 1998	Sept. 28, 1997
Weighted average shares outstanding	38,271	38,101	38,228	38,080
Adjustment for dilutive shares from stock options under the treasury stock method				
Shares assumed issued	1,076	1,352	1,216	841
Less - Shares assumed repurchased	(928)	(1,172)	(998)	(744)
Additional shares assumed outstanding	148	180	218	97
Applicable shares as adjusted	38,419	38,281	38,446	38,177
Net earnings	$24,903	$23,587	$60,590	$57,258
Diluted earnings per common share	$.65	$.62	$1.58	$1.50

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

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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.

1,000

9-MOS
JAN-03-1999
SEP-27-1998
111,612
47,101
611,097
13,655
0
813,743
213,128
79,610
1,039,478
441,239
0
0
0
40,116
558,123
1,039,478
0
2,993,543
0
2,461,108
0
0
0
102,705
42,115
60,590
0
0
0
60,590
1.58
1.58

5

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.

1,000

9-MOS
DEC-28-1997
SEP-28-1997
82,316
51,771
609,181
13,740
0
772,666
184,517
78,399
958,709
415,925
0
0
0
40,116
502,668
958,709
0
2,841,781
0
2,338,946
0
0
0
97,068
39,810
57,258
0
0
0
57,258
1.50
1.50