VOLT INFORMATION SCIENCES INC
Form 10-Q
March 17, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Three Months Ended February 2, 2003

Or

|_| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________________ to ____________________

Commission File No. 1-9232

VOLT INFORMATION SCIENCES, INC.
(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	13-5658129 (I.R.S. Employer Identification No.)
560 Lexington Avenue, New York, New York (Address of principal executive offices)	10022 (Zip Code)
Registrant's telephone number, including area code:	(212) 704-2400

Not Applicable
(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, and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark whether Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No |_|

The number of shares of the Registrant's common stock, $.10 par value, outstanding as of March 14, 2003 was 15,217,415.

VOLT INFORMATION SCIENCES, INC. AND SUBSIDIARIES
FORM 10-Q
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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

VOLT INFORMATION SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended	
	February 2, 2003	February 20
	(In thousands, except per share	
NET SALES	$358,243	$338,7
COSTS AND EXPENSES:		
Cost of sales	341,714	326,9
Selling and administrative	15,946	15,4
Depreciation and amortization	5,743	5,5
	363,403	347,9
OPERATING LOSS	(5,160)	(9,1
OTHER INCOME (EXPENSE):		
Interest income	182	1
Other expense-net--Note B	(556)	(3
Foreign exchange gain (loss)-net--Note J	85	(

Interest expense	(643)	(1,8
Loss from continuing operations before income taxes	(6,092)	(11,1
Income tax benefit	2,289	4,3
Loss from continuing operations before items shown below	(3,803)	(6,7
Discontinued operations--Note H		4,3
Cumulative effect of a change in accounting--Note K:		
Goodwill impairment		(31,9
NET LOSS	($3,803)	($34,3
	Per Share Data	
Basic and Diluted:		
Loss from continuing operations	($0.25)	($0.
Gain from discontinued operations		0.
Cumulative effect of a change in accounting		(2.
Net loss per share	($0.25)	($2.
Weighted average number of shares--Note G	15,217	15,2

(a) Pursuant to the Company's adoption of SFAS No. 142, results for the three months ended February 3, 2002 have been restated to give effect to the cumulative effect of a change in accounting related to goodwill impairment, the determination of which was finalized during the second quarter of fiscal 2002 (see Notes A and K).

See accompanying notes to condensed consolidated financial statements.

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VOLT INFORMATION SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	February 2, 2003
	(Unaudited)
ASSETS	(Dollars
CURRENT ASSETS	
Cash and cash equivalents, including restricted cash of $15,308 (2003) and $11,458 (2002)--Note J	$ 60,722
Short-term investments	3,522
Trade accounts receivable less allowances of $10,268 (2003) and $10,994 (2002)--Note B	265,710

Inventories--Note C	28,693
Recoverable income taxes	8,576
Deferred income taxes	8,327
Prepaid expenses and other assets	15,044
TOTAL CURRENT ASSETS	390,594
Property, plant and equipment less allowances for depreciation and amortization of $93,340 (2003) and $87,769 (2002)--Note E	87,736
Deposits and other assets	3,157
Intangible assets-less accumulated amortization of $1,288 (2003) and $1,258 (2002)--Note K	9,045
TOTAL ASSETS	$ 490,532
CURRENT LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Notes payable to banks--Note D	$ 2,738
Current portion of long-term debt--Note E	1,529
Accounts payable	136,629
Accrued wages and commissions	35,899
Accrued taxes other than income taxes	14,956
Accrued interest and other accruals	9,558
Customer advances and other liabilities	26,859
TOTAL CURRENT LIABILITIES	228,168
Long-term debt--Note E	14,409
Deferred income taxes	14,687
STOCKHOLDERS' EQUITY--Notes B, E and F	
Preferred stock, par value $1.00; Authorized--500,000 shares; issued--none	
Common stock, par value $.10; Authorized--30,000,000 shares; issued--15,217,415 shares	1,522
Paid-in capital	41,036
Retained earnings	191,159
Accumulated comprehensive loss	(449)
TOTAL STOCKHOLDERS' EQUITY	233,268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 490,532

(a) The balance sheet at November 3, 2002 has been derived from the audited financial statements at that date.

See accompanying notes to condensed consolidated financial statements.

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VOLT INFORMATION SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Three Months E

	February 2, 2003	Fe
	(In thous	
CASH PROVIDED BY (APPLIED TO) OPERATING ACTIVITIES		
Net loss	($3,803)	
Adjustments to reconcile net loss to cash provided by operating activities:		
Discontinued operations		
Cumulative effect of a change in accounting-goodwill impairment (a)		
Depreciation and amortization	5,743	
Equity in net loss of joint venture		
Accounts receivable provisions	839	
(Gain) loss on foreign currency translation	(1)	
Deferred income tax (benefit) provision	(71)	
Other	(2)	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	34,720	
Decrease in inventories	997	
Decrease (increase) in prepaid expenses and other current assets	464	
Decrease other assets	67	
Decrease in accounts payable	(17,856)	
Decrease in accrued expenses	(5,916)	
Increase in customer advances and other liabilities	7,747	
Decrease in income taxes payable	(2,024)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,904	

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VOLT INFORMATION SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)--Continued

	Three Months E	
	February 2, 2003	Fe
	(In thous	
CASH PROVIDED BY (APPLIED TO) INVESTING ACTIVITIES		
Sales of investments	$364	
Purchases of investments	(226)	
Proceeds from disposals of property, plant and equipment	124	
Purchases of property, plant and equipment	(4,210)	
Proceeds from sale of subsidiary		
Other	3	
NET CASH (APPLIED TO) PROVIDED BY INVESTING ACTIVITIES	(3,945)	
CASH (APPLIED TO) PROVIDED BY FINANCING ACTIVITIES		
Payment of long-term debt	(55)	

Increase (decrease) in notes payable to banks	337
NET CASH PROVIDED BY (APPLIED TO) FINANCING ACTIVITIES	282
Effect of exchange rate changes on cash	(139)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,102
Cash and cash equivalents, including restricted cash, beginning of period	43,620
CASH AND CASH EQUIVALENTS, INCLUDING RESTRICTED CASH, END OF PERIOD	$60,722
SUPPLEMENTAL INFORMATION	
Cash paid during the period:	
Interest expense	$526
Income taxes, net of refunds	($194)

(a) Pursuant to the Company's adoption of SFAS No. 142, cash flows for the three months ended February 3, 2002 have been restated to give effect to the cumulative effect of a change in accounting related to goodwill impairment, the determination of which was finalized during the second quarter of fiscal 2002 (see Notes A and K).

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note A--Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's consolidated financial position at February 2, 2003 and consolidated results of operations and consolidated cash flows for the three months ended February 2, 2003 and February 3, 2002. Pursuant to the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, the results of operations and cash flows for the three months ended February 3, 2002 have been restated to give effect to the cumulative effect of a change in accounting related to goodwill impairment, the determination of which was finalized during the second quarter of fiscal 2002 (see Note K). Operating results for interim periods are not indicative of the results that may be expected for the fiscal year.

These statements should be read in conjunction with the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended November 3, 2002. The accounting policies used in preparing these financial statements are the same as those described in that Report. The Company's fiscal year ends on the Sunday nearest October 31.

Note B--Securitization Program

Effective April 15, 2002, the Company entered into a $100.0 million, three-year accounts receivable securitization program ("Securitization Program"). Under the Securitization Program, receivables related to the United States operations of the staffing solutions business of the Company and its subsidiaries are sold from time-to-time by the Company to Volt Funding Corp., a wholly owned special purpose subsidiary of the Company ("Volt Funding"). Volt Funding, in turn, sells to Three Rivers Funding Corporation ("TRFCO"), an asset backed commercial paper conduit sponsored by Mellon Bank, N.A. and unaffiliated with the Company, an undivided percentage ownership interest in the pool of receivables Volt Funding acquires from the Company (subject to a maximum purchase by TRFCO in the aggregate of $100.0 million). The Company retains the servicing responsibility for the accounts receivable. At February 3, 2003, TRFCO had purchased from Volt Funding a participation interest of $60.0 million out of a pool of approximately $144.4 million of receivables.

The Securitization Program is not an off-balance sheet arrangement as Volt Funding is a 100% owned consolidated subsidiary of the Company. Accounts receivable are only reduced to reflect the fair value of receivables actually sold. The Company entered into this arrangement as it provided a low-cost alternative to other financing.

The Securitization Program is designed to enable receivables sold by the Company to Volt Funding to constitute true sales of those receivables. As a result, the receivables are available to satisfy Volt Funding's own obligations to its own creditors before being available, through the Company's residual equity interest in Volt Funding, to satisfy the Company's creditors (subject also, as described in Note E, to the security interest that the Company has granted in the common stock of Volt Funding in favor of the lenders under the Company's new Credit Facility). TRFCO has no recourse to the Company (beyond its interest in the pool of receivables owned by Volt Funding) for any of the sold receivables.

Note B--Securitization Program--Continued

In the event of termination of the Securitization Program, new purchases of a participation interest in receivables by TRFCO would cease and collections reflecting TRFCO's interest would revert to it. The Company believes TRFCO's aggregate collection amounts should not exceed the pro rata interests sold. There are no contingent liabilities or commitments associated with the Securitization Program.

The Company accounts for the securitization of accounts receivable in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." At the time a participation interest in the receivables is sold, the receivable representing that interest is removed from the condensed consolidated balance sheet (no debt is recorded) and the proceeds from the sale are reflected as cash provided by operating activities. Losses and expenses associated with the transactions, primarily related to discounts on TRFCO's commercial paper, are charged to the consolidated statement of operations.

The Company incurred charges of $0.4 million in the first quarter of fiscal 2003, which are included in Other Expense on the condensed consolidated statement of operations. The equivalent cost of funds in the Securitization Program was 2.2% per annum. The Company's carrying retained interest in the receivables approximated fair value due to the relatively short-term nature of the receivable collection period. In addition, the Company performed a sensitivity analysis, changing various key assumptions, which also indicated the retained interest in receivables approximated fair values.

At February 2, 2003 and November 3, 2002, the Company's carrying retained interest in a revolving pool of receivables of approximately $144.4 million and $168.2 million, respectively, net of a service fee liability, was approximately $84.3 million and $108.1 million, respectively. The outstanding balance of the undivided interest sold to TRFCO was $60.0 million at February 2, 2003 and November 3, 2002. Accordingly, the trade accounts receivable included on the February 2, 2003 and November 3, 2002 condensed consolidated balance sheets have been reduced to reflect the $60.0 million participation interest sold.

The Securitization Program is subject to termination at TRFCO's option, under certain circumstances, including the default rate, as defined, on receivables exceeding a specified threshold, the rate of collections on receivables failing to meet a specified threshold or the Company failing to maintain a long-term debt rating of "B" or better, or the equivalent thereof from a nationally recognized rating organization. The Company's most recent long-term debt rating was "BBB-" with a neutral rating outlook.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" to provide new guidance with respect to the consolidation of all previously unconsolidated entities, including special purpose entities. The Company has no unconsolidated subsidiaries. Therefore the adoption of the interpretation, required in fiscal 2003, had no impact on the Company's consolidated financial position or results of operations.

Note C--Inventories

Inventories of accumulated unbilled costs and materials by segment are as follows:

	February 2, 2003	November 3, 2002
	(In thousands)	
Staffing Services		$ 32
Telephone Directory	$11,573	11,355
Telecommunications Services	13,453	14,394
Computer Systems	3,667	3,909
Total	$28,693	$29,690

The cumulative amounts billed under contracts at February 2, 2003 and November 3, 2002 of $5.0 million and $2.1 million, respectively, are credited against the related costs in inventory.

Note D--Short-Term Borrowings

At February 2, 2003, the Company had total outstanding bank borrowings of $2.7

million under credit lines with domestic and foreign banks, that expire at various times during fiscal 2003 unless renewed, and that provide for borrowings and letters of credit up to an aggregate of $10.9 million. Borrowings in foreign currencies provide a hedge against devaluation in foreign currency denominated assets.

Note E--Long-Term Debt

Long-term debt consists of the following:

	February 2, 2003	November 3, 2002
	(In thousands)	
Term loan (a)	$14,755	$14,810
Notes payable (b)	1,183	1,183
	15,938	15,993
Less amounts due within one year	1,529	1,524
Total long-term debt	$14,409	$14,469

(a) In September 2001, a subsidiary of the Company entered into a $15.1 million loan agreement with General Electric Capital Business Asset Funding Corporation. The 20-year loan, which bears interest at 8.2% per annum and requires principal and interest payments of $0.4 million per quarter, is secured by a deed of trust on land and buildings (carrying amount at February 2, 2003, $11.4 million). The obligation is guaranteed by the Company.

(b) On February 9, 1999, the Company entered into a $5.6 million installment payment agreement to finance the purchase and support of an Enterprise Resource Planning system for internal use as an accounting and back office system, which has been capitalized and is being amortized over a five to seven year period. The agreement provides for interest, calculated at 6%, and principal payments in five equal annual installments of $1.3 million, which began in February 1999. The final payment was made in February 2003.

Note E--Long-Term Debt--Continued

Effective April 15, 2002, the Company entered into a $40.0 million, two-year, secured, syndicated, revolving credit agreement ("Credit Agreement") which established a credit facility ("Credit Facility") in favor of the Company and designated subsidiaries, of which up to $15.0 million may be used for letters of credit. Borrowings by subsidiaries are limited to $25.0 million in the aggregate. The administrative agent arranger for the secured Credit Facility is JP Morgan Chase Bank. The other banks participating in the Credit Facility are Mellon Bank, NA, Wells Fargo, N. A. and Lloyds TSB Bank PLC. Borrowings and letters of credit under the Credit Facility are limited to a specified borrowing base, which is based upon the level of specified receivables, generally at the end of the fiscal month preceding a borrowing. At February 2, 2003, the borrowing base was approximately $31.7 million. Borrowings under the Credit Facility are to bear interest at various rate options selected by the Company at the time of each borrowing, certain of which options are based on a leverage ratio, as defined (as is the facility fee). Additionally, interest and the facility fees can be increased or decreased upon a change in the Company's long-term debt rating provided by a nationally recognized rating agency. Based upon the Company's leverage ratio and debt rating at February 2, 2003, if a three-month LIBO rate was the interest rate option selected by the Company, borrowings would have borne interest at the rate of 2.8% per annum. At February 2, 2003, the facility fee was 0.5% per annum.

The Credit Agreement provides for the maintenance of various financial ratios and covenants, including, among other things, a requirement that the Company maintain a consolidated tangible net worth, as defined, of $220.0 million (the Company's consolidated tangible net worth as of February 2, 2003 was $225.5 million); limits cash dividends and capital stock repurchases and redemptions by the Company in any one fiscal year to 25% of consolidated net income, as defined, for the prior fiscal year; requires the Company to maintain a ratio of EBIT, as defined, to interest expense, as defined, of 1.25 to 1.0 for the twelve months ending as of the last day of each fiscal quarter. As a result of the loss sustained by the Company in fiscal 2002, the Company is currently restricted from paying dividends, and making stock repurchases and stock redemptions. The Credit Agreement also imposes limitations on, among other things, the incurrence of additional indebtedness, the incurrence of additional liens, sales of assets, the level of annual capital expenditures, and the amount of investments, including business acquisitions and investments in joint ventures, and loans that may be made by the Company and its subsidiaries. The Company received a waiver of the interest coverage covenant relating to its fiscal quarter ended February 2, 2003 contained in the Credit Agreement since the ratio of EBIT, as defined, to interest expense, as defined, was .96 to 1.0 for the twelve months ended February 2, 2003. At February 2, 2003, the Company was in compliance with all other covenants in the Credit Agreement and believes it will be in compliance with all covenants through at least the remainder of fiscal 2003.

The Company has not borrowed under the Credit Facility since its inception in April 2002 and no borrowings are presently anticipated in the second quarter of fiscal 2003. The Company is liable on all loans made to it and all letters of credit issued at its request, and is jointly and severally liable as to loans made to subsidiary borrowers; however, unless also a guarantor of loans, a subsidiary borrower is not liable with respect to loans made to the Company or letters of credit issued at the request of the Company, or with regard to loans made to any other subsidiary borrower. Six subsidiaries of the Company are guarantors of all loans made to the Company or to subsidiary borrowers under the Credit Facility. At February 2, 2003, four of those guarantors have pledged approximately $44.1 million of accounts receivable, other than those in the Securitization Program, as collateral security for their guarantee obligations. Under certain circumstances, other subsidiaries of the Company also may be required to become guarantors under the Credit Facility. The Company has pledged all of the stock of Volt Funding (see Note B) as collateral security for the Company's obligations under the Credit Facility.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)--Continued

Note F--Stockholders' Equity

Changes in the major components of stockholders' equity for the three months ended February 2, 2003 are as follows:

	Common	Paid-In	Retained

	Stock	Capital	Earnings
		(In thousands)	
Balance at November 3, 2002	$1,522	$41,036	$ 194,962
Net loss for the three months			(3,803)
Balance at February 2, 2003	$1,522	$41,036	$ 191,159

Another component of stockholders' equity, the accumulated other comprehensive loss, consists of cumulative unrealized foreign currency translation losses, net of taxes, of $451,000 and $490,000 at February 2, 2003 and November 3, 2002, respectively, and an unrealized gain, net of taxes, of $2,000 and $7,000 in marketable securities at February 2, 2003 and November 3, 2002, respectively. Changes in these items, net of income taxes, are included in the calculation of comprehensive loss as follows:

	Three Months Ended	
	February 2, 2003	February 3, 2002(1)
	(In thousands)	
Net loss	($3,803)	($34,340)
Foreign currency translation adjustments-net	39	(14)
Unrealized (loss) gain on marketable securities-net	(5)	28
Total comprehensive loss	($3,769)	($34,326)

(1) See Notes A and K for information concerning the restatement of the Company's results for the three months ended February 3, 2002.

Note G--Per Share Data

In calculating basic earnings per share, the dilutive effect of stock options are excluded. Diluted earnings per share are computed on the basis of the weighted average number of shares of common stock outstanding and the assumed exercise of dilutive outstanding stock options based on the treasury stock method.

	Three Months Ended	
	February 2, 2003	February 3, 2002
Denominator for basic and diluted earnings per share - Weighted average number of shares	15,217,415	15,215,665

Due to a pre-tax loss in the first quarters of fiscal 2003 and 2002, none of the outstanding options to purchase 563,623 and 571,201 shares, respectively, of the Company's common stock were included in the computation of diluted earnings per share because the effect of inclusion would have been antidilutive.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)--Continued

Note H--Sale and Acquisitions of Subsidiaries and Businesses

On November 30, 2001, the Company's 59% owned publicly-held subsidiary, Autologic Information International, Inc. ("Autologic"), that comprised the Company's Electronic Publication and Typesetting segment, was acquired by Agfa Corporation through a tender offer for all of Autologic's outstanding shares and a subsequent merger. The Company received $24.2 million for its shares. The Company's gain on the sale of $4.5 million, including a tax benefit of $1.7 million (resulting from a taxable loss versus a gain for financial purposes), is reflected in the Company's first quarter of fiscal 2002. The results of operations of Autologic have been classified as discontinued.

The following results related to Autologic are included in discontinued operations (through the sale and disposal date of November 30, 2001) for the quarter ended February 3, 2002:

	Three Months Ended February 3, 2002
	(In thousands)
Revenue	$3,296
Loss before taxes and minority interest	($488)
Income tax benefit	153
Minority interest	138
Loss from operations	(197)
Gain on disposal before tax benefit	2,761
Income tax benefit	1,746
Gain on disposal	4,507
Gain from discontinued operations	$4,310

Note I--Segment Disclosures

Financial data concerning the Company's sales and segment operating profit (loss) by reportable operating segment for the three months ended February 2, 2003 and February 3, 2002, included on page 17 of this Report, is an integral part of these condensed consolidated financial statements. During the three months ended February 2, 2003, consolidated assets decreased by $19.1 million primarily due to a decrease in receivables of the Staffing Services and Telecommunications Services segments partially offset by an increase in cash and cash equivalents due to reduced working capital requirements of the Company.

Note J--Derivative Financial Instruments, Hedging and Restricted Cash

The Company enters into derivative financial instruments only for hedging purposes. All derivative financial instruments, such as interest rate swap contracts, foreign currency options and exchange contracts, are recognized in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in

Note J--Derivative Financial Instruments--Continued

stockholders' equity as a component of comprehensive income, depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income, net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in the results of operations. At February 2, 2003, the Company had outstanding foreign currency option and forward contracts in the aggregate notional amount equivalent to $9.0 million, which approximated its net investment in foreign operations and is accounted for as a hedge under SFAS No. 52.

Included in cash and cash equivalents at February 2, 2003 and November 3, 2002 was approximately $15.3 million and $11.5 million, respectively, restricted to cover obligations that were reflected in accounts payable at that date. These amounts primarily relate to certain contracts with customers in which the Company manages the customers' alternative staffing requirements, including the payment of associate vendors.

Note K--Goodwill

As of the beginning of fiscal 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and other intangibles with indefinite lives are no longer amortized, but are subject to testing, annually and whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, using fair value methodology. The Company engaged independent valuation firms to assist in the determination of impairment, which may have existed in the $39.8 million of goodwill recorded at the beginning of fiscal 2002. The result of testing goodwill, upon adoption of SFAS No. 142, resulted in a non-cash charge of $31.9 million, which is reported under the caption "Cumulative Effect of a Change in Accounting" in fiscal 2002. The Company's annual impairment tests on the remaining goodwill of $9.0 million are expected to be computed during the second quarter of fiscal 2003.

The fiscal 2002 impairment charge in the Staffing Services segment relates to the Company's European Technical Placement division and the Commercial and Light Industrial division, which had been adversely affected by the economic declines in Europe and the United States, respectively. Both divisions had incurred losses in fiscal 2001. Accordingly, an impairment charge of $23.9 million (including $2.6 million, the total carrying amount of goodwill for the Commercial and Light Industrial division as of November 5, 2001) was recognized.

The fiscal 2002 impairment charge in the Company's Telephone Directory business related to its independent telephone directory publishing division ($6.9 million) of that segment, and the Company's then owned 50% interest in the westVista joint venture ($1.1 million), which also published independent directories. Due to the fact that some of the directories purchased had not performed as well as projected and in some cases had incurred losses, an impairment charge of $8.0 million was recognized.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)--Continued

Note L--Stock Options

The Company has elected to follow APB Opinion 25, "Accounting for Stock Issued to Employees," to account for its Non-Qualified Stock Option Plan under which no compensation cost is recognized because the option exercise price is equal to at least the market price of the underlying stock on the date of grant. Had compensation cost for these plans been determined at the grant dates for awards under the alternative accounting method provided for in SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123," net income and earnings per share, on a pro forma basis, would have been:

	Three Months Ended	
	February 2, 2003	February 3, 2002(
Pro forma net (loss) income (in thousands)	($3,857)	($34,437)
Pro forma net (loss) income per share-basic and diluted	($0.25)	($2.26)

(1) See Notes A and K for information concerning the restatement of the Company's results for the three months ended February 3, 2002.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements Disclosure

This Report and other reports and statements issued by the Company and its officers, from time-to-time, contain certain statements concerning the Company's future plans, objectives, performance, intentions and expectations. When used in this report, words such as "may," "should," "could," "seek," "believe," "expect," "anticipate," "estimate," "project," "strategy," "intend," "likely," and similar expressions are intended to identify forward-looking statements about the Company's future plans, objectives, performance, intentions and expectations. Although the Company believes that its assumptions are reasonable, these forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause the Company's actual results, performance and achievements to differ materially from those described or implied in the forward-looking statements. These risks and uncertainties include, but are not limited to:

o general economic, competitive and other business conditions, including the effects of weakened domestic and international economies

- the uncertainty of the world political situation, including the possible effects of military action and terrorism
- continued financial strength of the Company's customers, some of which have experienced layoffs, unfavorable financial results, investigations by government agencies and lowered financial expectations for the near term
- the degree and timing of obtaining new contracts and the rate of renewals of existing contracts, as well as customers' degree of utilization of the Company's services
- material changes in demand from larger customers, including those with which the Company has national contracts
- the effect of litigation by temporary employees, and government activity regarding, temporary help companies and the customers with which they do business
- variations in the rate of unemployment and higher wages sought by temporary workers, in certain technical fields particularly characterized by labor shortages, which could affect the Company's ability to meet its customers' demands and the Company's profit margins
- changes in customer attitudes toward the use of outsourcing and temporary personnel
- the adverse effect of customers and potential customers involving manufacturing offshore, reducing their need for temporary workers
- the need for the Company to diversify its available temporary personnel to offer greater support to the service sector of the economy
- the Company's ability to attract and retain certain classifications of technologically qualified personnel for its own use, particularly in the areas of research and development, implementation and upgrading of internal systems
- the Company's ability to meet competition in highly competitive markets with minimal impact on margins
- the Company's ability to achieve customer acceptance of its products and systems in markets characterized by rapidly changing technology and frequent new product introductions
- the Company's ability to foresee changes and to identify, develop and commercialize innovative and competitive products and systems in a timely and cost effective manner
- risks inherent in new product introductions, such as start-up delays, cost overruns and uncertainty of customer acceptance
- the timing of customer acceptances of systems
- the Company's dependence on third parties for some product components
- changes in laws, regulations and government policies, including increased taxes which, because of economic and competitive conditions may not be able to be passed on to the customer
- the degree and effects of inclement weather

- the Company's ability to maintain a sufficient credit rating to enable it to continue its securitization program

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

Forward-Looking Statements Disclosure--Continued

- the Company's ability to maintain its existing credit rating in order to avoid any increase in interest rates and any increase in fees under its revolving credit facility, as well as its ability to comply with the financial and other covenants applicable under its credit facility and other borrowing instruments

These and certain other factors are discussed in the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2002 and, from time-to-time, in the Company's other reports filed with the Securities and Exchange Commission.

Critical Accounting Policies

Management's discussion and analysis of its financial position and results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates, judgments, assumptions and valuations that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Future reported results of operations could be impacted if the Company's estimates, judgments, assumptions or valuations made in earlier periods prove to be wrong. Management believes the critical accounting policies and areas that require the most significant estimates, judgments, assumptions or valuations used in the preparation of the Company's financial statements are as follows:

Revenue Recognition - The Company recognizes revenue as services are rendered, products are shipped, or directories are published. Within the Company's operating segments, these services include the billing of labor, material and directory assistance transactions as they are provided. In addition, the Company may provide services under long-term contracts. Revenue and costs applicable to long-term contracts, including those providing for software customization or modification, are recognized under the completed contract method, upon customer acceptances, in accordance with the AICPA Statement of Positions No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" and No. 97-2, "Software Revenue Recognition" and related interpretations and amendments. The Company records provisions for estimated losses on contracts when losses become evident. Accumulated unbilled costs on contracts are carried in inventory at the lower of actual cost or estimated realizable value.

The Company, through its Shaw & Shaw subsidiary, provides professional employer organizational services ("PEO") to certain customers. The customer using these services generally transfers its entire work force or employees of a specific department or division to the Company. PEO revenue represented less than 2% of the Company's consolidated sales in the first quarters of fiscal 2003 and 2002. The Company's PEO services include payroll administration, human resource management, consulting on employee legal and regulatory compliance, providing comprehensive benefits, including retirement plans, workers' compensation coverage, loss control and risk management and certain other services. The customer has control over the day-to-day job duties of the employees. PEO revenues consist of the amounts charged to the customer by the Company for the employee's gross pay, the employer's share of related payroll taxes, workers' compensation and charges for certain other services provided by the Company, and a negotiated percentage markup of the employee's gross wages. Based on its analysis of Emerging Issues Task Force ("EITF") 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent," the Company believes that it provides its PEO services as a principal and, therefore recognizes all amounts billed to its customers as gross revenues. PEO services revenues in the first

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

Critical Accounting Policies--Continued

quarter of fiscal 2003, and 2002 aggregated approximately $7.0 million and $5.7 million, respectively. The direct expenses borne by the Company are included in cost of sales. On January 27, 2003, the Company received a comment from the staff of the Securities and Exchange Commission ("SEC") questioning the Company's revenue recognition policy for Shaw & Shaw. The Company understands that its policy is in accordance with the generally prevailing practice in the PEO industry and responded to the comment. The staff of the SEC advised the Company that it believes the appropriate presentation should be to report the Company's PEO revenue net of gross payroll cost. The Company has not been able to resolve this comment to date. If the Company were deemed to be an agent in its PEO activities, the Company could be required to record its PEO revenues net of gross payroll costs component of its services; however, in such an event, there would be no effect on the Company's net income.

Under certain other contracts with customers, the Company manages the customers' alternative staffing requirements, including transactions between the customer and other staffing vendors ("associate vendors"). When payments to associate vendors are subject to receipt of the customers' payment to the Company and the Company does not bear credit responsibility, the arrangements are considered non-recourse against the Company and the revenue, other than management fees payable to the Company, is excluded from sales.

Allowance for Uncollectable Accounts - The establishment of an allowance requires the use of judgment and assumptions regarding potential losses on receivable balances. Allowances for doubtful accounts receivable are maintained based upon historical payment patterns, aging of accounts receivable and actual write-off history. The Company believes that its allowances are adequate; however, changes in the financial condition of customers could have an effect on the allowance balance required and a related charge or credit to earnings.

Long-Lived Assets - As of the beginning of fiscal 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under these new rules, goodwill and other intangibles with indefinite lives are no longer amortized, but are subject to annual testing using fair value methodology. An impairment charge is recognized for the amount, if any, by which the carrying value of an intangible asset exceeds its fair value. The Company engaged independent valuation firms, which primarily used comparable multiples of revenue and EBITDA and other valuation methods to assist the Company in the determination of the fair value of the reporting units measured. An impairment charge of $31.9 million was recognized for the amount by which the carrying value of goodwill exceeded its implied fair value as of the beginning of fiscal 2002. Intangible assets with finite, measurable lives continue to be amortized over their respective useful lives.

Property, plant and equipment is recorded at cost, and depreciation and amortization are provided on the straight-line and accelerated methods at rates calculated to depreciate the cost of the assets over their estimated lives. Intangible assets, other than goodwill, and property, plant and equipment are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, these assets are tested for recoverability annually and whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The fair values of the assets are based upon Company estimates of the discounted cash flows that are expected to result from the use and eventual disposition of the assets or that amount that would be realized from an immediate sale. An impairment charge is recognized for the amount, if any, by which the carrying value of an asset exceeds its fair value. No impairment charge was recognized in the first quarter of fiscal 2003 as no events or circumstances indicated the

Critical Accounting Policies--Continued

existence of impairment. Although the Company believes its estimates are appropriate, the fair value measurements of the Company's long-lived assets could be affected by using different estimates and assumptions in these valuation techniques.

Capitalized Software - The Company's software technology personnel are involved in the development and acquisition of internal-use software to be used in its Enterprise Resource Planning system and software used in its operating segments, some of which are customer accessible. The Company accounts for the capitalization of software in accordance with AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Subsequent to the preliminary project planning and approval stage, all appropriate costs are capitalized until the point at which the software is ready for its intended use. Subsequent to the software being used in operations, the capitalized costs are transferred from costs-in-process to completed property, plant and equipment, and are accounted for as such. All post-implementation costs, such as maintenance, training and minor upgrades that do not result in additional functionality, are expensed as incurred.

Securitization Program - The Company accounts for the securitization of accounts receivables in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." At the time a participation interest in the receivables is sold, that interest is removed from the condensed consolidated balance sheet. On April 15, 2002, under a new securitization program, the Company, through a special purpose subsidiary, sold a participation interest of $50.0 million out of an initial pool of approximately $162.0 million of receivables. In August 2002, the participation interest sold increased to $60.0 million and remained at that level as of February 2, 2003. Accordingly, the trade receivables included in the February 2, 2003 balance sheet have been reduced to reflect the $60.0 million participation interest sold and no debt was recorded.

AND RESULTS OF OPERATIONS--Continued

THREE MONTHS ENDED FEBRUARY 2, 2003 COMPARED
TO THE THREE MONTHS ENDED FEBRUARY 3, 2002

The information, which appears below, relates to current and prior periods, the results of operations for which periods are not indicative of the results which may be expected for any subsequent periods.

	Three Months Ended	
	February 2, 2003	February 3, 2002
	(In thousands)	
Net Sales:		
Staffing Services		
Traditional Staffing	$287,294	$265,157
Managed Services	235,935	119,452
Total Gross Sales	523,229	384,609
Less: Non-recourse Managed Services	(221,045)	(106,766)
Net Staffing Services Sales	302,184	277,843
Telephone Directory	12,471	10,624
Telecommunications Services	25,857	33,070
Computer Systems	20,374	21,517
Elimination of intersegment sales	(2,643)	(4,301)
Total Net Sales	$358,243	$338,753
Segment Operating Profit (Loss):		
Staffing Services	($1,346)	($2,328)
Telephone Directory	(202)	(366)
Telecommunications Services	(163)	(2,966)
Computer Systems	2,392	2,111
Total Segment Operating Profit (Loss)	681	(3,549)
General corporate expenses	(5,841)	(5,610)
Total Operating Loss	(5,160)	(9,159)
Interest and other income	(374)	(120)
Foreign exchange gain (loss)-net	85	(13)
Interest expense	(643)	(1,823)
Loss from Continuing Operations Before Income Taxes	($6,092)	($11,115)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS--Continued

THREE MONTHS ENDED FEBRUARY 2, 2003 COMPARED
TO THE THREE MONTHS ENDED FEBRUARY 3, 2002--Continued

Results of Operations - Summary

In the first quarter of fiscal 2003, consolidated net sales increased by $19.5 million, or 6%, to $358.2 million from the comparable period in fiscal 2002. The increase in fiscal 2003 net sales resulted primarily from a sales increase of $24.3 million in the Staffing Services segment, partially offset by a sales decrease of $7.2 million in the Telecommunications Services segment.

The Company's first quarter fiscal 2003 loss from continuing operations before income taxes was $6.1 million, compared to $11.1 million in fiscal 2002. The Company's segments accounted for $4.2 million of the $5.0 million improvement in results from continuing operations before income taxes. The Company's operating segments reported an operating profit of $0.7 million in the first quarter of fiscal 2003 compared to an operating loss of $3.5 million in the comparable quarter in fiscal 2002. Contributing to the improvement was a $2.8 million decrease in the operating loss of the Telecommunications Services segment and a $1.0 million decrease in the operating loss of the Staffing Services segment.

The Company incurred a net loss of $3.8 million and $34.3 million in the first three months of fiscal 2003 and 2002, respectively. The 2002 first fiscal quarter included a non-cash charge of $31.9 million for impairment of goodwill and a $4.3 million net gain from discontinued operations.

The first quarter results historically are the lowest of the Company's fiscal year due to reduced customer staffing requirements, the temporary closing of some customer facilities during the holiday season and the publishing schedule of the Telephone Directory segment. Also, the operating results for the quarter were adversely affected by the present economic conditions, particularly in the telecommunications and high tech industries, which account for the major portion of the Company's revenues.

Several of the Company's large customers in these industries have implemented widespread layoffs and, especially in the telecommunications industry, have significantly reduced expenditures. These factors materially adversely affected the results of the Company's Staffing Services and Telecommunications Services segments. To counteract these factors and strengthen the Company's future results, the Company has continued its cost containment programs and reorganized its Telecommunications Services segment, which have mitigated some of the above-mentioned negative effects of the economy.

Results of Operations - By Segment

Staffing Services

Sales of the Staffing Services segment increased by $24.3 million, or 9%, to $302.2 million in the first quarter of fiscal 2003, and the segment reported an operating loss of $1.3 million, compared to an operating loss of $2.3 million in the comparable quarter of fiscal 2002. The sales increase was primarily from traditional staffing in the Commercial and Light Industrial division. This division sustained a loss of $3.1 million on sales of $120.0 million during the quarter, compared to an operating loss of $4.3 million on sales of $93.7 million for the first quarter of fiscal 2002. The decrease in operating loss was the result of the sales increase with only a slight increase in the dollar amount of overhead, partially offset by a decrease in gross margin of 2.2 percentage points, due to increased

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

THREE MONTHS ENDED FEBRUARY 2, 2003 COMPARED
TO THE THREE MONTHS ENDED FEBRUARY 3, 2002--Continued

Results of Operations - By Segment--Continued

Staffing Services--Continued

competition, electronic auctions and customers leveraging their buying power by consolidating the number of vendors with whom they deal.

Operating profit of the Technical Placement division was $1.8 million on net sales of $182.2 million for the first quarter of fiscal 2003, compared to an operating profit of $2.0 million on net sales of $184.1 million for the first quarter of fiscal 2002. The 1% decrease in net sales was due to lower recruited business, principally in Europe, partially offset by increased VMC Consulting project management and consulting revenue. Gross sales in the division increased 38%, from $311.9 million in the first quarter of fiscal 2002 to $431.6 million in the first quarter of fiscal 2003 due to new ProcureStaff accounts. However, substantially all of ProcureStaff sales are deducted in arriving at net sales due to the use of associate vendors who have agreed to be paid subject to the receipt of the customers' payment to the Company. The decrease in operating profit for the quarter was due to the 1% decrease in net sales, accompanied by a 7% increase in overhead costs. ProcureStaff sustained an operating loss in the first quarter of fiscal 2003, due to overhead costs incurred in the implementation of several new accounts. However, VMC Consulting reported a significant increase in operating profit due to its increased revenue.

While the segment is committed to continued cost controls designed to increase profitability for fiscal 2003, a return to substantially higher profit levels is likely to depend on the timing and strength of a general economic recovery. The Company expects that high unemployment and the need for state and local governments to align their revenues with expenditures will result in pressures on margins as jurisdictions increase payroll and various other taxes. Although the markets for the segment's services include a broad range of industries throughout the United States and Europe, general economic difficulties in specific geographic areas or industrial sectors have in the past, and could in the future, affect the profitability of the segment.

Telephone Directory

The Telephone Directory segment's sales increased by $1.8 million, or 17%, to $12.5 million in the fiscal 2003 first quarter, primarily in the DataNational and domestic directory operations, partially offset by a reduction in sales in Uruguay. The sales at DataNational increased by $3.7 million, or 193%, due to a change in the publication schedule of its community directories, and the sales in Uruguay decreased by $2.6 million, or 68%, due to lower printing revenue related to the economic instability in Uruguay and its neighboring countries. The segment currently has a high-margin production contract with a telecommunications company, which accounted for 10% of the segment's revenue in the first quarter of fiscal 2003, that will terminate towards the end of the fiscal year. The segment cannot determine the amount of revenue it will receive from the customer through the end of the contract or whether current revenue and profits will be replaced through existing or new customers in the future. The segment incurred an operating loss of $0.2 million in the first quarter of fiscal 2003, compared to a loss of $0.4 million in the first quarter of fiscal 2002. The decrease in operating loss was primarily due to the sales increases, partially offset by an increase in selling and overhead costs in DataNational to support the higher sales level.

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

THREE MONTHS ENDED FEBRUARY 2, 2003 COMPARED
TO THE THREE MONTHS ENDED FEBRUARY 3, 2002--Continued

Results of Operations - By Segment--Continued

Telecommunications Services

The Telecommunications Services segment's sales decreased by $7.2 million, or 22%, to $25.9 million in the first quarter of fiscal 2003 from the first quarter of fiscal 2002. However, its operating loss was $0.2 million in fiscal 2003, down from an operating loss of $3.0 million in fiscal 2002. The sales reduction was due to the decline in expenditures by many of the companies in the segment's telecommunications customer base. Through cost control initiatives, overhead has been significantly reduced from the prior year's comparable quarter. During the last half of fiscal 2002, the Company announced the reorganization of the segment's operations and continues to reduce costs in an effort to permit the segment to operate profitably at lower revenue levels without impairing its ability to take advantage of opportunities when the telecommunications industry stabilizes and customers' spending increases.

Computer Systems

The Computer Systems segment's sales decreased by $1.1 million, or 5%, to $20.4 million in fiscal 2003. However, its operating profit increased to $2.4 million in fiscal 2003 from $2.1 million in fiscal 2002. The decrease in revenue in fiscal 2003 was due to a $3.3 million reduction in project revenue recognized in VoltDelta Europe, which recognized revenue of $4.2 million due to customer acceptance in the first quarter of fiscal 2002 of an operator services switching infrastructure project. This decrease in revenue was partially offset by the growth of IT services provided by the segment's Maintech division, along with the continued expansion of the segment's directory assistance business. The segment's ASP operator service business handled 112 million transactions during the first quarter of fiscal 2003, an increase of 17% over the fourth quarter of fiscal 2002. The growth in operating profit from the comparable quarter in fiscal 2002 was the result of an increase in gross margin, partially offset by an increase in overhead costs.

Results of Operations - Other

Other items, discussed on a consolidated basis, affecting the results of operations for the three-month periods were:

Selling and administrative expenses increased by $0.5 million, or 3%, to $15.9 million in fiscal 2003, although, expressed as a percentage of sales, selling and administrative expenses were 4.5% in fiscal 2003, compared to 4.6% in fiscal 2002.

Depreciation and amortization increased by $0.2 million, or 4%, to $5.7 million in fiscal 2003. The increase was due to an increase in fixed assets over last year's comparable period.

Other expense increased by $0.3 million, or 75%, to $0.6 million in the first quarter of fiscal 2003. The other expense in fiscal 2003 resulted primarily from expenses related to the Company's Securitization Program, while the other expense in fiscal 2002 resulted primarily from the Company's share of losses of its joint venture, westVista Advertising Services, which was liquidated in August 2002.

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

THREE MONTHS ENDED FEBRUARY 2, 2003 COMPARED
TO THE THREE MONTHS ENDED FEBRUARY 3, 2002--Continued

Results of Operations - Other--Continued

Interest expense decreased by $1.2 million, or 65%, to $0.6 million in the first quarter of fiscal 2003. The decrease was the result of the Company's early repayment of the remaining $30.0 million of 7.92% Senior Notes in March 2002 in contemplation of the lower cost accounts receivable Securitization Program. The Securitization Program, the costs of which are reflected in other expense (see above), also eliminated higher cost borrowings under the revolving credit facility. The Company also benefited from significantly lower borrowing levels in Uruguay.

The Company's effective tax benefit rate on its financial reporting pre-tax losses was 37.6% in fiscal 2003, compared to 39.5% in fiscal 2002. The decreased rate was attributable to higher 2003 foreign losses for which no tax benefit was provided.

The consolidated results for the first quarter of fiscal 2002 also included a net gain from discontinued operations of $4.3 million which was comprised of a $4.5 million gain, including a tax benefit of $1.7 million, on the sale of the Company's interest in the Company's former 59% owned publicly-owned subsidiary, Autologic Information International, Inc. ("Autologic"), partially offset by a loss from discontinued operations through the November 30, 2001 disposal date of $0.2 million.

In accordance with SFAS No. 142, the Company performed the first of the required impairment tests of goodwill and other intangible assets as of the beginning of fiscal 2002. At that date, the Company's goodwill, related to prior acquisitions, amounted to approximately $40.0 million. The Company's revaluation under the new accounting rules was completed during the second quarter of 2002, and a $31.9 million impairment write-down was taken, reflecting declines in the market value of the acquisitions since they were purchased. The write-down was reported as a Cumulative Effect of a Change in Accounting with the six months results of 2002, and a restatement of the first quarter 2002 results from a loss of $2.4 million to a loss $34.3 million as reflected in the financial statements.

Liquidity and Capital Resources

Cash and cash equivalents, including restricted cash of $15.3 million and $11.5 million at February 2, 2003 and November 3, 2002, respectively, increased by $17.1 million to $60.7 million in the three months ended February 2, 2003, compared to an increase of $2.6 million in the comparable fiscal 2002 quarter.

Operating activities provided $20.9 million of cash in the first three months of fiscal 2003 compared to $31.2 million in the first quarter of fiscal 2002.

Operating activities in the first quarter of fiscal 2003, exclusive of changes in operating assets and liabilities, produced $2.7 million of cash, as the Company's net loss of $3.8 million included non-cash charges primarily for depreciation and amortization of $5.7 million and accounts receivable provisions of $0.8 million. In the first quarter of fiscal 2002, operating activities, exclusive of changes in operating assets and liabilities, produced $1.2 million of cash, as the Company's net loss of $34.3 million included non-cash charges of $31.9 million for goodwill impairment, depreciation and amortization of $5.5 million and accounts receivable provisions of $1.8 million, partially offset by income from discontinued operations of $4.3 million.

Liquidity and Capital Resources--Continued

Changes in operating assets and liabilities produced $18.2 million of cash in the first quarter of fiscal 2003, principally due to cash provided by decreases in the levels of accounts receivable of $34.7 million and an increase of $7.7 million in customer advances, partially offset by $23.8 million of expenditures to reduce the level of accounts payable and accrued expenses. In the first quarter of fiscal 2002, changes in operating assets and liabilities produced $30.1 million of cash, principally due to cash provided by decreases in the levels of accounts receivable of $56.0 million and an increase of $7.0 million in customer advances, partially offset by $26.2 million of expenditures to reduce the level of accounts payable and accrued expenses.

The principal factor in the $3.9 million of cash applied to investing activities in the first quarter of fiscal 2003 was expenditures of $4.2 million for property, plant and equipment. In the first quarter of fiscal 2002, the principal factor in the $21.3 million cash provided by investing activities was proceeds from the sale of Autologic of $24.2 million, partially offset by $3.0 million expended for property, plant and equipment.

Cash provided by financing activities in the first quarter of fiscal 2003 resulted from an increase of $0.3 million in bank loans. Financing activities used $49.6 million in the prior year's comparable period for the payment of bank loans.

The Company believes that its current financial position, working capital, future cash flows and credit lines are sufficient to fund its presently contemplated operations and satisfy its debt obligations.

Commitments

In fiscal 2000, the Company began development of a new web-enabled front-end system designed to improve efficiency and connectivity in the recruiting, assignment, customer maintenance and other functions in the branch offices of the Staffing Services segment. The total costs to develop and install this system are currently anticipated to be approximately $16.0 million, of which approximately $6.8 million has been incurred and capitalized to date. The Company has no other material capital commitments.

There has been no material change through February 2, 2003 in the Company's contractual cash obligations and other commercial commitments from that reported in the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2002.

Credit Lines

At February 2, 2003, the Company had credit lines with domestic and foreign banks that provide for borrowings and letters of credit up to an aggregate of $50.9 million, including a $40.0 million credit facility (the "Credit Facility") in favor of the Company and designated subsidiaries under a secured syndicated revolving credit agreement (the "Credit Agreement").

The Credit Facility of $40.0 million, which expires in April 2004, includes a $15.0 million letter of credit sub-facility. Borrowings by subsidiaries are limited to $25.0 million in the aggregate. The administrative agent arranger for the secured Credit Facility is JP Morgan Chase Bank. The other banks participating in the Credit Facility are Mellon Bank, NA, Wells Fargo, NA and Lloyds TSB Bank, PLC. This two-year Credit Facility, along with a three-year accounts receivable Securitization Program (see below), replaced the Company's $115.5 million credit agreement which was due to expire in September 2002. Borrowings and letters of credit under

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

Liquidity and Capital Resources--Continued

the Credit Facility are limited to a specified borrowing base, which is based upon the level of specified receivables, generally at the end of the fiscal month preceding a borrowing. At February 2, 2003, the borrowing base was approximately $31.7 million. Borrowings under the Credit Facility are to bear interest at various options selected by the Company at the time of each borrowing, certain of which rate options are based on a leverage ratio, as defined (as is the facility fee). Additionally, interest and the facility fees can be increased or decreased upon a change in the Company's long-term debt rating provided by a nationally recognized rating agency. Based upon the Company's leverage ratio and debt rating at February 2, 2003, if a three-month LIBO rate was the interest rate option selected by the Company, borrowings would have borne interest at the rate of 2.8% per annum. At February 2, 2003, the facility fee was 0.5% per annum.

The Credit Agreement provides for the maintenance of various financial ratios and covenants, including, among other things, a requirement that the Company maintain a consolidated tangible net worth, as defined, of $220.0 million (the Company's consolidated tangible net worth, as defined, as of February 2, 2003 was $225.5 million); limits cash dividends and capital stock repurchases and redemptions by the Company in any one fiscal year to 25% of consolidated net income, as defined, for the prior fiscal year; requires the Company to maintain a ratio of EBIT, as defined, to interest expense, as defined, of 1.25 to 1.0 for the twelve months ending as of the last day of each fiscal quarter. As a result of the loss sustained by the Company in fiscal 2002, the Company is currently restricted from paying dividends, and making stock repurchases and stock redemptions. The Credit Agreement also imposes limitations on, among other things, the incurrence of additional indebtedness, the incurrence of additional liens, sales of assets, the level of annual capital expenditures and the amount of investments, including business acquisitions and investments in joint ventures, and loans that may be made by the Company and its subsidiaries. The Company received a waiver of the interest coverage covenant relating to its fiscal quarter ended February 2, 2003 contained in the Credit Agreement since the ratio of EBIT, as defined, to interest expense, as defined, was .96 to 1.0 for the twelve months ended February 2, 2003. At February 2, 2003, the Company was in compliance with all other covenants in the Credit Agreement and believes it will be in compliance with all covenants through at least the remainder of fiscal 2003.

The Company has not borrowed under the Credit Facility since its inception in April 2002 and no borrowings are presently anticipated in the second quarter of fiscal 2003. The Company is liable on all loans made to it and all letters of credit issued at its request, and is jointly and severally liable as to loans made to subsidiary borrowers; however, unless also a guarantor of loans, a subsidiary borrower is not liable with respect to loans made to the Company or letters of credit issued at the request of the Company, or with regard to loans made to any other subsidiary borrower. Six subsidiaries of the Company are guarantors of all loans made to the Company or to subsidiary borrowers under the Credit Facility. At February 2, 2003, four of those guarantors have pledged approximately $44.1 million of accounts receivable, other than those in the Securitization Program, as collateral security for their guarantee obligations. Under certain circumstances, other subsidiaries of the Company also may be required to become guarantors under the Credit Facility. The Company has pledged all of the stock of its Volt Funding Corp. subsidiary (discussed below) as collateral security for its own obligations under the Credit Facility.

Securitization Program

Effective April 15, 2002, the Company entered into a $100.0 million three-year accounts receivable securitization program ("Securitization Program"). Under the Securitization Program, receivables related to the

Liquidity and Capital Resources--Continued

United States operations of the staffing solutions business of the Company and its subsidiaries are sold from time-to-time by the Company to Volt Funding Corp., a wholly owned special purpose subsidiary of the Company ("Volt Funding"). Volt Funding, in turn, sells to Three Rivers Funding Corporation ("TRFCO"), an asset backed commercial paper conduit sponsored by Mellon Bank, N.A., an undivided percentage ownership interest in the pool of receivables Volt Funding acquires from the Company (subject to a maximum purchase by TRFCO in the aggregate of $100.0 million). The Company retains the servicing responsibility for the accounts receivable. On April 15, 2002, TRFCO initially purchased from Volt Funding a participation interest of $50.0 million out of an initial pool of approximately $162.0 million of receivables. Of the $50.0 million cash paid by Volt Funding to the Company, $35.0 million was used to repay the entire outstanding principal balance under the Company's former revolving credit facility. At February 3, 2003, TRFCO had purchased from Volt Funding a participation interest of $60.0 million out of a pool of approximately $144.4 million of receivables.

The Securitization Program is not an off-balance sheet arrangement as Volt Funding is a 100% owned consolidated subsidiary of the Company, with accounts receivable only reduced to reflect the fair value of receivables actually sold. The Company entered into this arrangement as it provided a low-cost alternative to other forms of financing.

The Securitization Program is designed to enable receivables sold by the Company to Volt Funding to constitute true sales of those receivables. As a result, the receivables are available to satisfy Volt Funding's own obligations to its own creditors before being available, through the Company's residual equity interest in Volt Funding, to satisfy the Company's creditors (subject also, as described above, to the security interest that the Company has granted in the common stock of Volt Funding in favor of the lenders under the Company's new Credit Facility). TRFCO has no recourse to the Company (beyond its interest in the pool of receivables owned by Volt Funding) for any of the sold receivables.

In the event of termination of the Securitization Program, new purchases of a participation interest in receivables by TRFCO would cease and collections reflecting TRFCO's interest would revert to it. The Company believes TRFCO's aggregate collection amounts should not exceed the pro rata interests sold. There are no contingent liabilities or commitments associated with the Securitization Program.

The Company accounts for the securitization of accounts receivable in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." At the time a participation interest in the receivables is sold, the receivable representing that interest is removed from the consolidated balance sheet (no debt is recorded) and the proceeds from the sale are reflected as cash provided by operating activities. Losses and expenses associated with the transactions, primarily related to discounts on TRFCO's commercial paper, are charged to the consolidated statement of operations.

The Securitization Program is subject to termination at TRFCO's option, under certain circumstances, including, among other things, the default rate, as defined, on receivables exceeding a specified threshold, the rate of collections on receivables failing to meet a specified threshold, the Company failing to maintain a long-term debt rating of "B" or better or the equivalent thereof from a nationally recognized rating organization or a default occurring and continuing on indebtedness for borrowed money of at least $5.0 million. The Company's most recent long-term debt rating was "BBB-" with a neutral rating outlook.

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

Liquidity and Capital Resources--Continued

Summary

The Company believes that its current financial position, working capital, future cash flows from operations, credit lines and accounts receivable Securitization Program are sufficient to fund its presently contemplated operations through at least the remainder of fiscal 2003 and satisfy its debt obligations.

New Accounting Pronouncements to be Effective in Fiscal 2003

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements, by rescinding SFAS No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Accounting Principles Board Opinion No. 30 will now be used to classify those gains and losses. Additionally, SFAS No. 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The provisions of SFAS No. 145 that amend SFAS No. 13 were adopted by the Company in its consolidated financial statements for the first quarter of fiscal 2003. The adoption of SFAS No. 145 will not have a material impact on the Company's consolidated financial position or results of operations, but will require a future reclassification of the extraordinary item arising from the March 2002 early payment of the Company's Senior Notes to other income (expense) beginning in the second quarter of fiscal 2003.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and nullifies Emerging Issues Task Force No. 94-3. The Company's adoption of SFAS No. 146, at the beginning of fiscal 2003 does not have a material impact on the Company's consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment to FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide new guidance concerning the transition when a company changes from the intrinsic value method to the fair value method of accounting for employee stock-based compensation cost. As amended by SFAS No. 148, SFAS No. 123 will also require additional disclosure regarding such cost in annual financial statements and in condensed interim financial statements. Certain provisions of SFAS No. 148 are required to be adopted by the Company in its condensed consolidated financial statements for the second quarter of fiscal 2003. The Company believes that the adoption of SFAS No. 148 will not have a material impact on the Company's consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" to provide new guidance with respect to the consolidation of all previously unconsolidated entities, including special purpose entities. The Company has no unconsolidated subsidiaries, therefore the adoption of the interpretation, required in fiscal 2003, had no impact on the Company's consolidated financial position or results of operations.

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ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk exposure in the following areas:

Interest Rate Market Risk

The Company has cash and cash equivalents ($60.7 million at February 2, 2003) on which interest income is earned at variable rates. At February 2, 2003, the Company had short-term borrowings totaling $2.7 million under credit lines with various domestic and foreign banks and also had sold a participation interest of $60.0 million in accounts receivable under the Securitization Program. The interest rates on investments and borrowings and the cost of the Securitization Program, which is based, in part, on prevailing interest rates in the commercial paper market, are variable and, therefore, interest income, interest expense and the cost of the Securitization Program are affected by the general level of U.S. and foreign interest rates. Increases in interest rates would result in higher interest expense and higher securitization costs that could be substantially offset by an increase in interest income, depending upon the levels of cash and cash equivalents, borrowings and financing under the Securitization Program. The Company policy is to take actions that would mitigate risk when appropriate and available.

The Company's long-term debt of $14.4 million at February 2, 2003 consists of borrowings at fixed interest rates, and the Company's interest expense related to these borrowings is not exposed to changes in interest rates in the near term.

Equity Price Risk

The Company holds short-term investments in mutual funds for the Company's deferred compensation plan. At February 2, 2003, the total market value of these investments was $3.5 million, all of which were being held for the benefit of participants in a non-qualified deferred compensation plan with no risk to the Company.

Foreign Exchange Market Risk

The Company has a number of overseas subsidiaries and is, therefore, subject to exposure from the risk of currency fluctuations as the value of foreign currencies fluctuate against the dollar, which may impact reported earnings. The Company attempts to reduce these risks by utilizing foreign currency contracts and borrowings to hedge the adverse impact on foreign currency net assets when the value of the dollar strengthens against the related foreign currency. At February 2, 2003, the Company had entered into foreign currency options and forward contracts in the aggregate notional amount of $9.0 million, which approximately offset its exposure in foreign currencies at that date. The Company does not believe that it is exposed to material foreign exchange market risk.

ITEM 4 - CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) within 90 days of the filing date of this quarterly report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit	Description
4.01	Letter, dated as of March 10, 2003, to the Company from the bank lenders under the Credit Agreement, dated April 12, 2002, among the Company, Gatton Volt Consulting Group Limited as borrowers, Volt Delta Resources, Inc., Volt Information Sciences Funding, Inc., Volt Directories S.A. Ltd., DataNational, Inc., Volt Telecommunications Group, Inc. and DataNational of Georgia, Inc. as guarantors, the lenders party thereto, and JP Morgan Chase Bank, as administrative agent.

15.01	Letter from Ernst & Young LLP regarding Independent Accountants' Review Report
15.02	Letter from Ernst & Young LLP regarding Rule 436(c) of the Securities Act of 1933
99.01	Certification of Principal Executive Officer pursuant to 18 U.S.C section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
99.02	Certification of Principal Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

No Reports on Form 8-K were filed during the quarter ended February 2, 2003

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.

VOLT INFORMATION SCIENCES, INC.
(Registrant)

BY: /s/ JACK EGAN

Date: March 17, 2003

JACK EGAN
Vice President - Corporate Accounting
(Principal Accounting Officer)

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CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, William Shaw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Volt Information Sciences, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 17, 2003

/s/ William Shaw

William Shaw
Chairman of the Board,
President and Principal
Executive Officer

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CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, James J. Groberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Volt Information Sciences, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial

information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 17, 2003

/s/ James J. Groberg

James J. Groberg
Senior Vice President and
Principal Financial Officer

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