REMEDYTEMP INC
Form 10-K
December 30, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
x Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended September 29, 2002
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 number 0-5260

REMEDYTEMP, INC.

(Exact Name of Registrant as Specified in Its Charter)

California	95-2890471
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

101 Enterprise
Aliso Viejo, California 92656
(Address of Principal Executive Offices) (Zip Code)

Registrant s telephone number including area code: (949) 425-7600

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock $.01 par value	Nasdaq National Market

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or by amendment to this Form 10-K. x

The aggregate market value of the Class A Common Stock held by non-affiliates of the registrant based upon the closing sales price of its Class A Common Stock on December 27, 2002 on the Nasdaq National Market was $82,998,895. The aggregate market value of the Class B Common Stock (which converts to Class A upon certain transactions) held by non-affiliates of the registrant based upon the closing sales price of its Class

A Common Stock on December 27, 2002 on the Nasdaq National Market was $3,213,499.

The number of shares of Class A Common Stock outstanding as of December 27, 2002 was 8,256,195 and the number of shares of Class B Common Stock outstanding as of December 27, 2002 was 1,213,950.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant will file a definitive Proxy Statement pursuant to Regulation 14A within 120 days of the end of the fiscal year end September 29, 2002. Portions of the Company s Proxy Statement, to be mailed to the shareholders in connection with the Annual Meeting, are incorporated by reference in Part III of this report. Except for the portions expressly incorporated by reference, the Company s Proxy Statement shall not be deemed to be part of this report.

RemedyTemp, Inc.
2002 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

* No information provided due to inapplicability of item.

PART I

Item 1. Business

In addition to historical information, the description of business below, management s discussion and analysis in Part II and other statements contained elsewhere in this Annual Report on Form 10-K, include certain forward-looking statements, including, but not limited to, those related to the growth and strategies, future operating results and financial position as well as economic and market events and trends of RemedyTemp, Inc., including its wholly-owned subsidiaries, (collectively, the Company). All forward-looking statements made by the Company, including such statements herein, include material risks and uncertainties and are subject to change based on factors beyond the control of the Company (certain of such statements are identified by use of words such as anticipate, believe, estimate, intend, expect, will or future) Accordingly, the Company s actual results and financial position may differ materially from those expressed or implied in any forward-looking statement as a result of various factors, including without limitation, the success of RemX® Financial Staffing and the Company s telemarketing program, the performance of i/search2000®, changes in general or local economic conditions that could impact the Company s expected financial results, the availability of sufficient personnel, various cost relating to temporary workers and personnel such as state unemployment insurance and workers compensation costs, the Company s ability to open new points of distribution and expand in core geographic markets, the Company s ability to attract and retain clients and franchisees/licensees, the outcome of litigation matters and other factors described in the Company s filings with the Securities and Exchange Commission regarding risks affecting the Company s financial conditions and results of operations. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized. The following should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto.

General

RemedyTemp, Inc., founded in 1965 and incorporated in California in 1974, is a national provider of clerical, light industrial, information technology and financial temporary staffing services to industrial, service and technology companies, professional organizations and governmental agencies. The Company provides its services in 38 states and Puerto Rico through a network of 266 offices, of which 126 are Company-owned and 140 are independently-managed franchises. During the twelve months ended September 29, 2002, the Company placed approximately 142,000 temporary workers, known as associates, and provided approximately 38 million hours of staffing services to over 11,000 clients. From the beginning of fiscal 1997 through the end of fiscal 2002, the Company added 105 offices.

The Company has positioned itself to take advantage of trends in the temporary staffing industry, such as increased integration of temporary workers as a significant, long-term workforce component in both manufacturing and service-oriented companies and increased outsourcing by clients of certain staffing functions. Historically, the Company focused on the clerical and light industrial sectors of the nation s temporary workforce. Beginning in November 1998, the Company began servicing the information technology sector and in fiscal 2002 began servicing the financial and accounting sector. The clerical, light industrial, information technology and financial sectors comprise approximately 85.4% of the nation s temporary staffing industry revenues, according to the Staffing Industry Analysts, Inc. (SIA), an independent staffing industry publication. Additionally, the Company intends to continue focusing its efforts in these areas. Through the use of innovative technologies and value-added services, the Company strives to partner with its clients to deliver total solutions to their temporary staffing needs. The Company s expertise in providing associates who possess the skills and attitudinal characteristics necessary to fit into its clients organizations and perform at a superior level distinguishes the Company as a premium provider of temporary staffing services and technologies.

The Company has invested significant human and financial resources in the development of these proprietary technologies designed to enable the Company to provide its clients with premium temporary workers and unique value-added services. The Company s primary proprietary technologies are maintained and offered in the following four interactive systems: Market Analysis Profiling Sourcing (MAPS®), a demographic system that assists branch personnel in finding associates to meet certain criteria; Human Performance Technology (HPT®), an innovative series of multimedia evaluations used to profile the attitudinal characteristics of the Company s associates; *i/search 2000®*, an integrated front office and back office database system that is used to pay temporary associates and bill clients as well as to classify, search and match the Company s associates to job openings using parameters based upon client needs; and Employee Data Gathering and Evaluation (EDGE®), a proprietary computer system used by the Company at certain client locations to coordinate scheduling, track job performance and generate customized utilization reports for the client s entire temporary workforce. The EDGE® system is installed at the beginning of a temporary assignment and is removed upon completion of that assignment. The EDGE® system, including the related hardware, is the property of the Company and is not sold or leased to its clients. Early in fiscal 2001, the Company completed its implementation of *i/search 2000®*, which replaced the Company s previous proprietary front office information system. The Company believes that the integrated *i/search*

2000® will enable its Company-owned and independently-managed offices to streamline operational efficiencies and enhance client service levels.

Additionally, the Company provides master vendor and on-site management programs to its clients in an effort to streamline the management of the temporary workforce and reduce the overall costs. As a master vendor, Remedy provides clients with centralized order processing, sub-contractor management and regular business reviews to track performance. The on-site management program provides a dedicated representative on-site at the client location to manage the entire temporary workforce including developing, coordinating and managing associate orientation, training, order fulfillment, payroll tracking and other personnel issues.

Management believes that the Company s proprietary technologies and workforce management programs give the Company advantages over competing temporary staffing companies that do not provide similar value-added services.

The Staffing Industry

Temporary help revenues for the United States staffing industry were estimated to be $80.2 billion in 2001 as compared to $84.8 billion in 2000. This trend results from the impact of the overall slowdown in the U.S. economy and a tightening labor market. Prior to 2001, annual growth rates in temporary help revenues from 1997 to 2000 averaged approximately 11.1%. Industry analysts project that the staffing market will resume growth as the U.S. economy improves. Historically, the temporary staffing industry has experienced its greatest growth during economic recoveries. According to recent reports by the American Staffing Association (ASA), an independent trade organization for the staffing industry, temporary help revenues for the first two calendar quarters of 2002 experienced further contraction but grew in the third calendar quarter of 2002 both sequentially and year over year.

The staffing services industry was once used predominately as a short-term solution for greater workforce needs during peak production periods and to replace workers who were abruptly terminated or who were absent due to illness or vacation. Since the late 1980s, the use of temporary services has evolved into a permanent and significant component of the staffing plans of many employers. Corporate restructuring, government regulations, advances in technology and the desire by many business entities to shift employee costs from a fixed to a variable expense have resulted in the use of a wide range of staffing alternatives by businesses. Flexible staffing alternatives allow businesses to respond quickly and aggressively to changing market conditions which many economists and analysts believe is critical to future economic growth.

Additionally, many economists believe temporary staffing also encourages greater work force participation, which is critical as the U.S. faces a labor shortage. Temporary staffing provides employment flexibility and options to people who might otherwise choose not to work. Flexible work arrangements offer choices that fit the diverse needs and preferences of potential employees thereby contributing to increased participation and enhanced productivity. These, along with various other economic and social factors, have increased the help supply services employment rate from 1.2% of the non-farm U.S. workforce in 1990 to 2.3% in 2001, according to U.S. Department of Labor statistics. The ASA estimates that the average daily employment in temporary help services approximated 2.2 million nationwide in 2001.

The clerical, light industrial, information technology and financial sectors represent the largest four sectors of the temporary staffing industry. A staffing industry report by SIA, based on 2001 revenues, reported that the office and clerical sector accounted for $20.3 billion or approximately 25.3% of the temporary staffing industry revenues, the light industrial sector accounted for $15.7 billion or approximately 19.6% of industry revenues, the technical/information technology sectors accounted for $24.4 billion or approximately 30.4% of industry revenues, and the financial sector accounted for $8.2 billion or approximately 10.2% of industry revenues. Historically, the overall growth in temporary staffing revenues has resulted primarily from growth in these four sectors. While all sectors in the temporary staffing industry experienced contraction in 2001, industry reports currently project modest growth in 2002 and 2003.

Operations

The Company provides temporary personnel in the following four industry sectors: clerical, light industrial, information technology and financial.

Clerical Services. As the use of temporary staffing has become more prevalent, the range of clerical positions provided by the Company has expanded beyond traditional secretarial staff to include a broad range of general business environment personnel. Clerical services include executive assistants, word processors, customer service representatives, data entry operators, hosts, telemarketers, other general office staff, and call center agents, including customer service, help desk/product support, order takers, market surveyors, collection agents and telesales.

Light Industrial Services. Light industrial services personnel are furnished for a variety of assignments including assembly work (such as mechanical assemblers, general assemblers, solderers and electronic assemblers), factory work (including merchandise packagers, machine operators and pricing and tagging personnel), warehouse work (such as general laborers, stock clerks, material handlers, order pullers, forklift operators, palletizers and shipping/receiving clerks), technical work (such as lab technicians, quality control technicians, bench technicians, test operators, electronic technicians, inspectors, drafters, checkers, designers, expediters and buyers) and general services (such as maintenance and repair personnel, janitors and food service workers).

In August 1998, the Company created the Remedy Logistics Group® to provide solutions for clients logistics staffing needs, including distribution and fulfillment. Logistics is the management of inventory, and includes warehousing, transportation, distribution and supply of goods. Remedy Logistics Group® supplies temporary associates in the following categories: inventory takers, forklift operators, shipping clerks, material processors, warehouse workers, boxers, mail clerks, expeditors and inventory control clerks.

Information Technology Services. In November 1998, RemX Technology Group®, began providing information technology temporary staffing and consulting services. RemX Technology Group® supplies contract staffing and consulting professionals in key technology categories including hardware and software engineering, database design development, application development, Internet/Intranet site development, networking, software quality assurance and technical support. RemX Technology Group® is exclusively a Company-owned operation.

Financial Services. The Company s newest division, REMX® Financial Staffing, was launched during fiscal 2002 with nine office openings. REMX® Financial Staffing is a highly specialized division focusing on placing financial and accounting personnel in key positions within the financial sector. REMX® Financial Staffing provides its clients with controllers, financial analysts, certified public accountants, auditors, senior/staff accountants and a variety of other positions on a temporary, temp-to-hire or direct hire basis. RemX® Financial Staffing is exclusively a Company-owned operation.

Office Organization.

The Company provides its services through a network of 266 office locations, 126 of which are owned and operated by the Company and 140 of which are operated as independently-managed franchised offices. The table below sets forth the geographic distribution of the Company-owned and independently-managed offices as of September 29, 2002.

	Company-Owned Offices	Franchised Offices	Total Offices
California	79	3	82
Western Region(1)	8	20	28
Midwestern Region(2)	11	35	46
Southeastern Region(3)	19	67	86
Northeastern Region(4)	9	13	22
Puerto Rico	0	2	2
Total	126	140	266

(1) Includes Arizona, Colorado, Hawaii, Idaho, Nevada, Oregon, Utah and Washington.
(2) Includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.
(3) Includes Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia.
(4) Includes Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York and Pennsylvania.

Company-Owned Offices.

The Company-owned offices provide clerical, light industrial, information technology and financial services and are concentrated in California, with locations in 21 other states. These offices are organized into five divisions, each managed by an Operational Vice President and other regional staff who provide operational support for the offices in their regions. Company-owned offices are organized into different matrices based upon geographic location and/or service offerings. Each matrix has an office manager who is accountable for the day-to-day operations and profitability of the offices within that matrix.

Managers report to their Operational Vice Presidents, and together they are responsible for sales, client development and retention, recruitment, placement and retention of associates and general administration for their respective offices and regions. The Company believes that its decentralized structure contributes to the initiative and commitment of its management team and that its incentive compensation approach motivates managers to increase profits.

Company-owned offices had average sales per office of approximately $2.1 million for fiscal 2002. The density of Company-owned offices in certain areas enables the Company to spread fixed costs such as advertising, recruiting and administration over a larger revenue base, and also to share associates and provide clients with superior coverage and service capabilities. In addition, the Company has divided highly successful Company-owned offices into separate clerical, light industrial, information technology and financial offices, allowing each to specialize and further penetrate its market.

Independently-Managed Franchised Offices.

Independently-managed franchised offices provide clerical and light industrial services and, in general, have been an important element of the Company s growth strategy for more than a decade. Such offices have enabled the Company to expand into new markets with highly qualified franchisees without significant capital expenditures. The majority of the Company s offices outside California are independently-managed franchises. Franchise agreements have ten-year terms and are renewable for successive five-year or ten-year terms, depending upon when such agreements originated. Such agreements cover exclusive geographic territories and contain minimum revenue performance standards. The Company s franchise agreements are structured in either a traditional franchise format or a licensed franchise format.

Traditional Franchises. The Company employed a traditional franchise model primarily from 1987 until 1990 (referred to as both traditional franchise and traditional franchisee). As of September 29, 2002, 14 of the Company s 140 independently-managed offices were traditional franchises. These franchisees pay all lease and working capital costs, fund payroll and collect clients accounts. Generally, traditional franchisees pay the Company an initial franchise fee and continuing franchise fees, or royalties, equal to approximately 7% of gross billings. Royalty fees are reduced when the franchisee serves a national client as these clients typically have lower margins. Traditional franchisees employ all office management staff and all temporary personnel affiliated with their offices. The Company provides training, the right to use certain designated service marks and trademarks, its business model, proprietary computer programs, as well as operational support. Material rights and terms of the form of the franchise agreement for traditional franchise offices include the right to operate a Remedy franchise business within an exclusive geographic territory, a non-exclusive license of the Remedy trademarks and service marks designated for use and operation of the franchised business, disclosure and use of Remedy s trade secrets and operating guidance from Remedy. Furthermore, pursuant to the terms of the form of franchise agreement for traditional franchise offices, franchisees shall indemnify Remedy from any liability that may arise in connection with the franchised business and must comply with certain minimum performance standards and operating procedures. The Company no longer offers this form of franchise agreement.

Licensed Franchises. Since 1990, the Company has recruited new franchisees under the licensed franchise format (referred to as licensed franchise, licensed franchisee and/or licensee). The Company moved from the traditional franchise to the licensed franchise format to exercise more control over the collection and tracking of the receivables of the independently-managed offices and to allow the Company to grow without being limited by the financial resources of traditional franchisees. As of September 29, 2002, 126 of the Company s 140 independently-managed office locations were licensed franchise offices. The licensed franchise format differs from the traditional franchise format in that the Company employs all temporary personnel affiliated with the office. The Company funds payroll, collects clients accounts and remits to the licensee 60%-70% of the office s gross profit, based upon the level of hours billed during the licensee s contract year. However, the Company s share of the licensee s gross profit, representing its continuing franchise fees, is generally not less than 7.5% of the licensee s gross billings, with the exception of national accounts on which the Company s fee is reduced to compensate for lower gross margins. Material rights and terms of the form of the franchise agreement for licensed offices include the right to operate a Remedy franchise business within an exclusive geographic territory, a non-exclusive license of the Remedy trademarks and service marks designated for use and operation of the franchised business, disclosure and use of Remedy s trade secrets and operating guidance from Remedy. Furthermore,pursuant to the terms of the form of franchise agreement for licensed offices, licensees shall indemnify Remedy from any liability that may arise in connection with the franchised business and must comply with certain minimum performance standards and operating procedures. Currently, the Company only offers this form of franchise agreement.

Generally, licensed franchisees pay the Company an initial franchise fee of $18,000 and continuing franchise fees consist of the Company s share of the licensee s gross profit as discussed above. Licensed franchise agreements entered into subsequent to January 2002 provide for deferred payment of a portion of the initial franchise fee. Currently, the initial investment for a licensed franchise business is estimated to be $91,820-$192,030 as disclosed in the Company s Uniform Franchise Offering Circular (UFOC) dated and issued as of December 31, 2002 in accordance with Federal Trade Commission regulations. As outlined in the UFOC, this estimated initial investment includes the initial franchise fee payable to the Company, as well as estimated expenditures to various vendors for pre-operating costs and operating costs for the initial six months of operation. Continuing franchise fees are excluded from the total estimated initial investment. Refer to the franchise agreement for licensed offices, filed as an exhibit to this Annual Report on Form 10-K, for additional rights and terms of the franchise agreement currently offered by the Company.

Clients

The Company serves the needs of both medium-size and Fortune 500 businesses in a variety of industries. During the twelve months ended September 29, 2002, the Company serviced over 11,000 clients nationwide. The Company s 10 highest volume clients in fiscal 2002 accounted for approximately 18.6% of the Company s system-wide gross billings. No single client accounted for more than 3.9% of the Company s system-wide gross billings for fiscal 2002.

Competition

The temporary services industry is highly competitive with limited barriers to entry. The Company believes that its largest competitors in the clerical and light industrial sectors include Adecco S.A., Kelly Services, Inc., Manpower Inc., Spherion Corporation, Labor Ready and Personnel Group of America. These and other large competitors have nationwide operations with substantially greater resources than the Company, which among other things could enable them to attempt to maintain or increase their market share by reducing prices. In addition, there are a number of other medium-sized firms that are regional or emphasize specialized niches and compete with the Company in certain markets where they have a stronger presence. Finally, numerous small or single-office firms compete effectively with the Company s offices in their limited areas. In the information technology and financial sectors, the Company believes that its competitors include Modis Professional Services, Robert Half International, Inc., Adecco S.A., Alternative Resources Corporation (ARC), On Assignment, Inc., KForce, Comsys and CDI Corporation.

The Company s management believes that the most important competitive factors in obtaining and retaining its targeted clients are understanding the customer s specific job requirements, the ability to provide qualified temporary personnel in a timely manner and the quality and price of services. The primary competitive factors in obtaining qualified candidates for temporary employment assignments are wages, benefits and responsiveness to work schedules.

The Company expects ongoing vigorous competition and pricing pressure from national, regional and local providers, and there is no assurance that the Company will be able to maintain or increase its market share or profitability.

Workers Compensation

Remedy provides workers compensation insurance to its temporary associates and to its colleagues. Effective April 1, 2001 and for workers compensation claims originating in the majority of states (referred to as non-monopolistic states), the Company has contracted with independent, third-party carriers for workers compensation insurance and claims administration. Each contract covers all workers compensation claim costs greater than a specified deductible, on a per occurrence basis. The Company is self-insured for its deductible liability ($250,000 per individual claim incurred from April 1, 2001 to March 31, 2002 and $500,000 for all subsequent claims). However, should any single occurrence exceed the applicable deductible amount per occurrence, all incremental losses and expenses would be paid by the applicable insurance carrier.

Remedy establishes a reserve for the remaining deductible portion of its workers compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. Adjustments to the claims reserve are charged or credited to expense in the periods in which they occur. The estimated remaining deductible liability under the aforementioned contracts as of September 29, 2002 is approximately $14.6 million. The Company is contractually required to maintain irrevocable letters of credit aggregating $31.1 million to collateralize its remaining recorded obligations under these workers compensation insurance contracts. Additionally, the Company has an aggregate $5.5 million liability recorded at September 27, 2002 for additional premiums due under previous guaranteed cost policies and premiums due under current policies in monopolistic states.

From July 22, 1997 through March 31, 2001, the Company had a fully insured workers compensation program with Reliance National Insurance Company (Reliance). The annual premium for this program was based upon actual payroll costs multiplied by a fixed rate. Each year, the Company prepaid the premium based upon estimated payroll levels and an adjustment was subsequently made for differences between the estimated and actual amounts. Subsequent to March 31, 2001 (the end of Company s final policy year with Reliance), Reliance became insolvent and was subsequently liquidated. The Company is currently in litigation with the California Insurance Guaranty Association regarding financial responsibility for all remaining open claims under the Reliance workers compensation program (see further discussion under Item 3. Legal Proceedings).

Employees

As of September 29, 2002, the Company employed a staff of approximately 500 individuals (excluding temporary associates). During fiscal 2002, approximately 142,000 temporary associates were placed by the Company through Company-owned and independently-managed franchised offices. Approximately 70,000 of the temporary associates were employed by Company-owned offices and approximately 62,000 were employed, by the Company, through licensed franchise offices. Approximately 10,000 of the temporary associates were placed by traditional franchise offices, and are not employed by the Company but are legal employees of the traditional franchisees. At any given time during 2002, only a portion of these employees were placed on temporary assignments. The Company has no collective bargaining agreements and believes its employee relations are good.

Governmental Regulation

The Company s marketing and sale of franchises is regulated by the Federal Trade Commission and by authorities in 19 states. In those states, the Company is required to file a registration application, provide notice or qualify for an exemption. The Company has filed, or is in the process of filing, the appropriate registration application or provided notice in 16 of these states and has obtained an exemption from such registration requirements in the remaining 3 states. The Company files and distributes, to prospective franchisees, Franchise Offering Circulars and other materials in order to comply with such registration and disclosure requirements. In addition, the Company s ongoing relationships with its franchisees are regulated by applicable federal and state franchise laws.

Proprietary Rights and Systems

The Company has developed, either internally or through hired consultants, its MAPS®, HPT®, EDGE® and *i/search 2000*® computer systems. These and other proprietary systems are trade secrets of the Company and the Company has copyrights to certain software used in these systems.

The Company has registered the following trademarks and service marks with the U.S. Patent & Trademark Office for use in its operation: REMEDY®, REMEDY TEMPORARY SERVICES®, REMEDYTEMP®, REMEDY TECHNICAL®, CALLER ACCESS®, INTELLISEARCH®, INTELLIGENT STAFFING®, HIRE INTELLIGENCE®, EDGE®, VSM®, HPT®, THE INTELLIGENT TEMPORARY®, MAPS®, REMEDY LOGISTICS GROUP®, REMX TECHNOLOGY GROUP®, REMX® Financial Staffing, AXCESS INTERACTIVE CUSTOMER CARE® and *I/SEARCH 2000*®. In addition, the Company asserts ownership of, and has filed applications with the U.S. Patent & Trademark Office to register the service mark RECRUITRAC℠. In general, these marks are used by the Company and its licensees and franchisees, except that REMX TECHNOLOGY GROUP® and REMX® Financial Staffing are used exclusively by the Company.

Risk Factors

In evaluating Remedy s business, you should carefully consider the following risk factors in addition to information contained elsewhere in this Annual Report on Form 10-K:

Any significant economic downturn could result in our clients using fewer temporary employees, which could materially adversely affect the Company.

Demand for temporary services is significantly affected by the general level of economic activity. As economic activity slows, businesses may reduce their use of temporary employees before undertaking layoffs of their full-time employees, resulting in decreased demand for Remedy s temporary personnel. Further, in an economic downturn, the Company may face pricing pressure from its customers and increased competition from other staffing companies, which could have a material adverse effect on the Company s business. The overall slowdown in the U.S. economy in 2001 and 2002 had a significant adverse impact on the Company s revenues. Additionally, because the Company currently derives a significant portion of its system-wide billings from the California market (approximately 43.3% in fiscal 2002), an economic downturn in California would have a greater impact on the Company than if the Company had a more widely dispersed revenue base.

Remedy operates in highly competitive markets with low barriers to entry, potentially limiting its ability to maintain or increase its market share or margins.

The temporary services industry is highly competitive with limited barriers to entry and in recent years has been undergoing significant consolidation. The Company competes in national, regional and local markets with full service agencies and with specialized temporary services agencies. Many competitors are smaller than the Company but have an advantage over the Company in discrete geographic markets because of their stronger local presence. Other competitors are more well-known and have greater marketing and financial resources than the Company, which among other things could enable them to attempt to maintain or increase their market share by reducing prices. The Company expects the level of competition to remain high in the future, and competitive pricing pressures may have an adverse effect on the Company s operating margins.

Remedy s success depends upon its ability to attract and retain qualified temporary personnel.

Remedy depends upon its ability to attract qualified temporary personnel who possess the skills and experience necessary to meet the staffing requirements of its clients. Remedy must continually evaluate and upgrade its base of available qualified personnel to keep pace with changing client needs and emerging technologies. Competition for individuals with proven skills is intense, and demand for these individuals is expected to remain very strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available to Remedy in sufficient numbers and on terms of employment acceptable to the Company. Remedy s success will depend on its ability to recruit qualified temporary personnel and retain them.

Remedy s business may suffer if it loses its key personnel.

Remedy s operations are dependent on the continued efforts of its executive officers and senior management. Additionally, Remedy is dependent on the performance and productivity of its local managers and field personnel. Remedy s ability to attract and retain business is significantly affected by local relationships and the quality of service rendered. The loss of those key executive officers and senior management who have acquired experience in operating a staffing service company may cause a significant disruption to Remedy s business. Moreover, the loss of Remedy s key local managers and field personnel may jeopardize existing customer relationships with businesses that continue to use Remedy s staffing services based upon past direct relationships with these local managers and field personnel. Either of these types of losses could adversely affect Remedy s operations, including Remedy s ability to establish and maintain customer relationships.

Remedy may be exposed to employment-related claims and costs that could materially adversely affect its business.

Remedy is in the business of employing people and placing them in the workplace of other businesses. Attendant risks of these activities include possible claims by customers of employee misconduct or negligence, claims by employees of discrimination or harassment (including claims relating to actions of Remedy s customers), claims related to the inadvertent employment of illegal aliens or unlicensed personnel, payment of workers compensation claims and other similar claims. Remedy has policies and guidelines in place to help reduce its exposure to these risks and has purchased insurance policies against certain risks in amounts that it believes to be adequate. However, there can be no assurances that Remedy will not experience these problems in the future or that Remedy may not incur fines or other losses or negative publicity with respect to these problems that could have a material adverse effect on Remedy s business.

The cost of unemployment insurance premiums and workers compensation costs for Remedy s temporary employees may rise and reduce Remedy s margins.

Businesses use temporary staffing in part to shift certain employment costs and risks to personnel services companies. For example, Remedy is responsible for and pays unemployment insurance premiums and workers compensation for its temporary employees. These costs have generally risen as a result of increased claims, general economic conditions and governmental regulation. There can be no assurance that Remedy will be able to increase the fees charged to its clients in the future to keep pace with increased costs. Price competition in the personnel services industry is intense. There can be no assurance that Remedy will maintain its margins, and if it does not; its results of operations, financial condition and liquidity could be adversely affected.

Remedy retains a portion of the risk under its workers compensation program (see Business Workers Compensation). The estimated remaining deductible liability for all existing and incurred but not reported claims is accrued based upon actuarial methods using current claims information, as well as prior experience, and may be subsequently revised based on new developments related to such claims. Changes in the estimates underlying the claims reserve are charged or credited to earnings in the period determined, and therefore large fluctuations in any given quarter could materially adversely affect earnings in that period.

The Company is contractually required to maintain irrevocable letters of credit aggregating $31.1 million to collateralize its remaining recorded obligations under these workers compensation insurance contracts. Remedy expects the amount of collateral required will continue to increase. In the event that Remedy loses its current credit facilities, or cash flow and borrowing capacity under the existing credit facilities are insufficient to meet this increasing obligation, the Company will be required to seek additional sources of capital to satisfy its liquidity needs which could have a material adverse effect on the Company s business.

Remedy derives a significant portion of its system-wide billings and revenues from franchised operations.

The Company derives a substantial amount of its system-wide billings and revenues (approximately 45.4% and 42.5%, respectively, in fiscal 2002) from traditional and licensed franchise operations. The ownership of the Company s traditional and licensed franchise offices is concentrated, with the ten largest franchisees together accounting for approximately 18.9% of the Company s system-wide billings in fiscal 2002. There can be no assurance that the Company will be able to attract new franchisees or that the Company will be able to retain its existing franchisees. The loss of one or more of these relationships, or other franchisees who may in the future account for a significant portion of the Company s revenues, could have a material adverse effect on the Company s results of operations.

The Company is continually subject to the risk of new regulations, which could harm its business.

During 2001 and 2002, a number of bills were introduced in Congress and various state legislatures which, if enacted, would impose conditions that could have a negative financial impact on the Company and harm its business operations. Remedy takes an active role (through its affiliations with, and participation in, various staffing industry organizations) in opposing proposed legislation adverse to its business and in informing policy makers as to the social and economic benefits of its business. However, there can be no assurance or guarantees that any of these bills (or future bills) will not be enacted, in which case, demand for the Company s services may suffer.

Item 2. Properties

The Company does not own any real property. The Company leases its corporate headquarters in Aliso Viejo, California, from OTR, an Ohio General Partnership. The lease agreement provides for leased premises, totaling approximately 52,500 square feet in size, at a fixed rate of $1.93 per square foot per month, for a fixed term of five and one-half years from the date of occupancy. The base rent includes amounts for operating costs, which include, but are not limited to, property taxes, utilities, supplies, repairs and maintenance, janitorial staff, security staff and insurance premiums on the building. In addition to base rent, after the first year of occupancy, the Company is obligated to pay a portion of the increase in operating costs and real property taxes for the leased premises. The Company has an option to renew the lease after the initial term for an additional term of five years. The Company moved into its current corporate headquarters in September 1998, and the initial term of its lease expires in April 2003.

As of September 29, 2002, the Company leased the space occupied by all of its Company-owned offices. The Company selects the sites for these offices by evaluating proximity to potential clients and available temporary personnel. The Company assists its franchisees in selecting sites for independently-managed offices, but presently does not own and is not obligated under any leases at these sites.

Item 3. Legal Proceedings

On October 16, 2001, GLF Holding Company, Inc. and Fredrick S. Pallas filed a complaint in the Superior Court of the State of California, County of Los Angeles, against RemedyTemp, Inc., its wholly-owned subsidiaries (Remedy Intelligent Staffing, Inc. and Remedy Temporary Services, Inc.), Karin Somogyi, Paul W. Mikos and Greg Palmer. The Complaint purports to be a class action brought by the individual plaintiffs on behalf of all of Remedy's traditional and licensed franchisees. The Complaint alleges claims for fraud and deceit, negligent misrepresentation, negligence, breach of contract, breach of warranty, conversion and accounting, unfair and deceptive practices, and restitution and equitable relief. The plaintiffs claim that Remedy wrongfully induced its franchisees into signing franchise agreements and breached the agreements, thus causing the franchisees damage. Remedy has sought to compel arbitration with the plaintiffs in accordance with its franchise agreement with each of them and to deny class certification. Remedy believes it has meritorious defenses to the allegations contained in this complaint and intends to defend this action with vigor. At this time management is unable to give an estimate as to the amount or range of potential loss, if any, which might result to the Company if the outcome in this matter were unfavorable.

On December 10, 2001, RemedyTemp, Inc. and Remedy Intelligent Staffing, Inc. filed a demand for arbitration before the Los Angeles branch of the American Arbitration Association (AAA) and a complaint in United States District Court, Central District of California, for, among other things, breach of contract, trademark infringement, misappropriation of trade secrets and unfair competition against Stephen M. Smith, Jody A. Smith and Smith Temporaries, Inc. doing business as CornerStone Staffing and Remedy Intelligent Staffing. The defendants filed a counterclaim in arbitration alleging, among other things, breach of contract, defamation and trade secret misappropriation. The defendants were licensed franchisees of Remedy until their franchise agreement expired on December 30, 2001. The parties have settled both the action pending before the AAA and the action pending before the United States District Court. During fiscal 2002, the Company recorded a $0.5 million benefit as a result of this settlement and incurred unreimbursed legal fees of $0.4 million.

In early 2002, the California Insurance Guarantee Association (CIGA) began making efforts to join some of the Company s customers in pending workers compensation claims filed by Remedy s employees following the liquidation of Remedy s former carrier, Reliance. At the time of these injuries, from July 22, 1997 through March 31, 2001, Remedy was covered by workers compensation policies issued by Reliance. The Company believes that, under California law, CIGA is responsible for Reliance s outstanding liabilities. Remedy initiated legal proceedings against CIGA in both Superior Court for the State of California, County of Los Angeles and the California Workers Compensation Appeals Board (WCAB) on February 15, 2002 and February 26, 2002, respectively. On April 5, 2002, the WCAB granted Remedy s motion and consolidated the various workers compensation claims in which CIGA tried to join Remedy s customers. The WCAB also granted Remedy s motion to stay CIGA s efforts to join Remedy s customers in those claims. The WCAB selected a single test case from the consolidated pending cases to review and decide on the legal issues involved (i.e., whether it is proper for CIGA to join Remedy s clients in the pending claims). The trial occurred on September 20, 2002. The WCAB Administrative Law Judge ruled in favor of CIGA and dismissed it from the lawsuit, thus allowing the pending workers compensation matters to proceed against the Company s clients and their insurance carriers. Remedy has filed a motion for reconsideration of the decision of the WCAB Administrative Law Judge to the entire WCAB and has asked that the WCAB continue the stay of the matter until the appeal process has been exhausted. Management remains confident, based upon the advice from outside counsel, that its position on this issue will ultimately prevail and that the Company will suffer no loss.

In the event of an unfavorable outcome, Remedy expects that it would reimburse its clients for actual losses incurred as a result of an unfavorable ruling in this matter. If CIGA is permitted to join Remedy s clients, thus triggering such clients insurance carriers obligation to pay for the claims, the exposure to Remedy becomes a function of the ultimate claims losses and the impact of such claims, if any, on the clients insurance coverage. At this time, Remedy is unable to obtain reliable current data from the trustee for Reliance regarding outstanding claims and is also unable to ascertain the specific details regarding the insurance coverage of its affected clients and the impact of an unfavorable ruling on such coverage. Accordingly, the Company believes that at this time, a range of loss cannot be reasonably estimated. Management does believe that its exposure in this matter, should CIGA prevail, would likely be material to the Company s consolidated statement of income. To provide a historical reference regarding the claims incurred during the applicable period, the estimated remaining unpaid liability for such claims as of September 30, 2001 was approximately $17-$19 million, based upon an actuarial analysis of Remedy s workers compensation claims history performed by a third party actuary. There are inherent limitations in the actuarial process given the significant judgement required in estimating the ultimate developed cost of the claims. As such, this amount could have differed if different assumptions had been utilized. Additionally, this amount was based upon information through September 30, 2001 and could materially differ from an estimate based upon current claims information. Further, as stated above, the Company strongly cautions that: (i) it believes the Company's exposure in this matter is not the remaining claims liability, but rather a function of the impact of such claims, if any, on the client's insurance costs and (ii) it expects to prevail upon appeal to the WCAB and that it will suffer no loss.

From time to time, the Company becomes a party to other litigation incidental to its business and operations. The Company maintains insurance coverage that management believes is reasonable and prudent for the business risks that the Company faces. Based on current available information, management does not believe the Company is party to any legal proceedings that are likely to have a material adverse effect on the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company s security holders during the Company s fourth quarter of the fiscal year ended September 29, 2002.

Executive Officers of the Registrant

The executive officers of the Company and their respective ages as of September 29, 2002 are set forth below.

Name	Age	Position(s) Held
Greg Palmer	46	President and Chief Executive Officer
Robert E. McDonough, Sr.	80	Founder and Vice Chairman of the Board of Directors
Alan M. Purdy	62	Senior Vice President, Chief Financial Officer and Assistant Secretary
Gunnar B. Gooding	39	Vice President, Human Resources and Legal Affairs
Cosmas N. Lykos	34	Vice President of Business Affairs, General Counsel and Secretary
Shawn Mohr	31	Vice President, Sales and Marketing

Greg Palmer has served as President and Chief Executive Officer of the Company since January 2001. From January 1998 to January 2001, Mr. Palmer served as Executive Vice President and Chief Operations Officer of the Company. From 1985 to December 1997, and prior to joining the Company, Mr. Palmer served in senior level management positions in the southeast and northeast divisions and previously as Senior Vice President in charge of managing operations in the western United States for Olsten Corporation, formerly a provider of staffing and health care services.

Robert E. McDonough, Sr. has served as Vice Chairman of the Board of Directors of the Company (the Board) since January 2001. He served as Chairman of the Board from August 1978 to January 2001. Mr. McDonough founded the Company in 1965 and has been involved in the management and long-term operation and strategic planning of the Company since that time. For 29 years, until May 1994, he served as the Company s Chief Executive Officer.

Alan M. Purdy has served as Senior Vice President, Chief Financial Officer and Assistant Secretary of the Company since November 1996. From February 1994 to November 1996, he served as Vice President and Chief Financial Officer of the Company. From January 1993 until December 1993, he was Senior Vice President and Chief Financial Officer of Builder s Emporium, a division of Collins and Aikman Group, Inc. From March 1988 until August 1992, he was Senior Vice President and Chief Financial Officer of HUB Distributing, Inc. (d.b.a. Millers Outpost), a subsidiary of American Retail Group. Mr. Purdy has announced that he will retire effective January 1, 2003. The Company has hired Monty Houdeshell, former Chief Financial Officer of Furon Corporation, to serve as Senior Vice President, Chief Financial Officer of the Company upon Mr. Purdy s retirement.

Gunnar B. Gooding has served as Vice President, Human Resources and Legal Affairs of the Company since April 2000 and prior to that as Vice President, General Counsel since September 1998. From September 1989 to September 1998, Mr. Gooding worked as an attorney at Gibson, Dunn & Crutcher LLP where he specialized in employment litigation.

Cosmas N. Lykos has served as Vice President of Business Affairs, General Counsel and Secretary of the Company since December 2000 and prior to that as Vice President, General Counsel and Secretary since September 1998. From September 1994 to September 1998, Mr. Lykos served as a corporate associate at Gibson, Dunn & Crutcher LLP, specializing in mergers and acquisitions, public offerings, franchise and general corporate matters.

Shawn Mohr has served as Vice President, Sales and Marketing of the Company since May 2001. Prior to joining the Company, Mr. Mohr served as Senior Vice President of Marketing for Opus360 Corporation/Freeagent.com from March 2000 to December 2000. From November 1997 to March 2000, Mr. Mohr served as Division Senior Vice-President of KFORCE Professional Staffing and from April 1997 to September 1997, Mr. Mohr was Manager of Operations and Marketing for On Assignment, Inc., a financial and scientific staffing firm.

PART II

Item 5. Market for Registrant s Common Equity and Related Shareholder Matters

Since July 11, 1996, the Company s Class A Common Stock has been traded on the Nasdaq National Market under the symbol REMX. Prior to July 11, 1996, the Company s stock was not publicly traded. The following table sets forth the high and low sales prices for the Class A Common Stock for fiscal 2002 and fiscal 2001:

	For the Three Months Ended			
	December 30, 2001	March 31, 2002	June 30, 2002	September 29, 2002
High	$ 14.45	$ 16.25	$ 18.88	$ 19.50
Low	$ 9.05	$ 12.27	$ 15.40	$ 10.15
	December 31, 2000	April 1, 2001	July 1, 2001	September 30, 2001
High	$ 12.00	$ 14.56	$ 14.26	$ 15.25
Low	$ 7.25	$ 7.81	$ 9.81	$ 11.00

As of December 27, 2002, there were an estimated 900 shareholders of record of the Company s Class A Common Stock and 5 shareholders of record of the Company s Class B Common Stock.

Subsequent to the Company s initial public offering in fiscal 1996, the Company has not declared or paid cash dividends on its Class A or Class B Common Stock and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain earnings for use in its operations and the expansion of its business.

Item 6. Selected Financial Data

The selected financial data with respect to the Company set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated