REMEDYTEMP INC
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SCHEDULE 14A

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F I N A L T R A N S C R I P T

May. 11. 2006 / 10:30AM, REMX - Q2 2006 RemedyTemp, Inc. Earnings Conference Call

C O R P O R A T E P A R T I C I P A N T S

Greg Palmer

RemedyTemp Inc. - President and CEO

Monty Houdeshell

RemedyTemp Inc. - SVP and Chief Administrative Office

Darren Kaya

RemedyTemp Inc. - VP, Finance

C O N F E R E N C E C A L L P A R T I C I P A N T S

Tobey Summer

Robinson Humphrey - Analyst

Ty Govatos

CL King - Analyst

P R E S E N T A T I O N

Operator

Good day, ladies and gentlemen, and welcome to the RemedyTemp Inc. fiscal 2006 second quarter conference call. My name is Sharelle, and I will be your coordinator for today. [Operator Instructions] I would now like to turn the call over to Darren Kaya, Vice President of Finance with RemedyTemp Inc. Please proceed.

Darren Kaya - *RemedyTemp Inc. - VP, Finance*

Thank you, operator, and good morning, everyone. Welcome to our conference call to discuss our fiscal 2006 second quarter, as well as the definitive acquisition agreement RemedyTemp has entered into with Select Personnel Services. I m Darren Kaya, Vice President of Finance of RemedyTemp Inc., and we appreciate your joining us on such short notice.

By now, you should have received the news release announcing results for the second quarter ended April 2nd, 2006, as well as the acquisition news release. If you have not, please call Donna Holzmann at (949) 425-7754. She will either fax or email a copy to you immediately.

We have arranged for a replay of today s call that will be available through Thursday, May 25th, at midnight Pacific time, by dialing (888) 286-8010, conference ID #52701747. You may also visit our website at www.RemedyTemp.com for a replay as well as for additional information about the company.

During the course of today s call, projections and other forward-looking remarks regarding future events or RemedyTemp s future financial performance will be made. Such forward-looking statements involve material risks and uncertainties, and are subject to change based on factors beyond the company s control.

We also refer you to the documents that RemedyTemp files from to time to time with the SEC, specifically the most recently filed Forms 10-Q and 10-K. These documents contain important factors that could cause actual results to differ materially from those contained in management s projections or forward-looking statements.

It is now my pleasure to introduce RemedyTemp s President and Chief Executive Officer Greg Palmer. Greg?

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Thanks, Darren, and good morning, everyone. And thank you for joining us. Today was a big news day for RemedyTemp, with two important announcements. As anticipated, and actually better than anticipated, Q2 was another outstanding quarter.

And over and above the news, this morning we announced the signing of an agreement with Santa Barbara-based Select Personnel Services, under which Select would acquire all the outstanding shares and options of Remedy for $17 per share, or approximately $169 million in cash. The agreement represents a 39% premium over Wednesday s closing stock price of $12.20 per share.

Select, which provides temporary staffing services for companies in a wide range of business sectors, posted annual revenues of $513 million in 2005. The proposed transaction has the unanimous support of RemedyTemp Board of Directors. It is subject to approval by a majority of Remedy s shareholders, completion of Select s planned financing, and other customary regulatory and closing conditions.

The entire Board believes this transaction provides a solid return to our shareholders, and affords RemedyTemp customers and employees an outstanding opportunity.

There are not too many further details to discuss related the transaction at this point, but I would like to talk a little bit about Remedy s second fiscal quarter, which typically is seasonally the weakest period of our industry. Thanks to a number of factors that we ll be discussing today, the numbers for RemedyTemp came in quite strong.

We achieved net income of $568 million, equal to $0.06 per fully diluted share for the quarter ending April 2nd, 2006, compared with a net loss of $1.4 million or $0.15 per share for the prior year.

This is the third consecutive quarter that we ve reported profitable operations, following a three-year period of executing a disciplined strategy focused on margin enhancement. We accomplished our turnaround objective through a shift in our business mix that today is providing far better returns and effectively reducing worker s compensation expense through adding to our sales staff and by reducing and closely monitoring costs throughout the company.

We exceeded our guidance for the quarter, as pre-tax profits rose to $770,000 from a pre-tax loss of $1.9 million a year ago. In addition, our gross margin percentage advanced by nearly 2 percentage points to 21.7% from 19.8% a year earlier.

As expected, revenues for the second quarter were down just slightly on a comparative basis with the corresponding period last year. This was directly attributable to our strategy of eliminating certain low margin, high risk accounts last year, allowing us to concentrate on the type of business that already is enabling us to operate profitably.

Approximately $35 million in light industrial business that did not meet our criteria was pruned during the past year, primarily here in California. While we will continue to monitor individual accounts for profitability and claims arrest, the pruning was essentially completed by the second quarter of last year. So beginning with the current quarter, our third fiscal quarter, and going forward, the revenue comparisons with the prior year will be on a more apples to apples basis, and we fully anticipate favorable year-over-year comparisons.

Our strong second quarter also reflected a relatively stable pricing market for most staffing companies, along with the general economy virtually firing on all cylinders. Unemployment was low. The GDP was strong. And the Fed officials made it clear that they are near the end of their march towards higher interest rates.

I d like now to call upon Monty Houdeshell to review the second quarter numbers, and then I ll provide a little more insight into our operating highlights and the milestone agreement we announced this morning, and we ll both then be available to answer questions. Monty?

Monty Houdeshell - *RemedyTemp Inc. - SVP and Chief Administrative Office*

Thanks, Greg. It s always gratifying when a strategy is developed and executed to produce tangible financial results. This morning s announcement provides a different kind of tangible result to our shareholders. I will concentrate my remarks on the operating results.

The fundamental components of our strategy were and continue to be to focus on the smaller to mid-sized accounts for all of our business units, pursue the growth opportunities afforded by our highly successful RemX operations, as well as our direct hire business, market our new Talent Magnet by Remedy brand, increase sales productivity, and reduce operating expenses, continue to achieve a greater balance of revenue outside of California, and overall numerous internal practices regarding the management of workers compensation.

As Greg mentioned, the only strategic element of the past few years no longer applicable is the exiting of higher risk, low margin accounts. We completed that. But because in last year s second quarter there were still a number of accounts that we did not exit until the end of the period, revenues for the 2006 second quarter and first half of the current fiscal year were a little down by comparison.

For the fiscal 2006 second quarter, consolidated revenue totaled $124.6 million, down just slightly from $125.3 million in the corresponding period last year. However, when taking into account that we eliminated approximately $35 million plus profitable higher claims risk business during the past year, the underlying revenue trend is favorable.

As Greg stated, revenue will compare on a more apples to apples basis starting with the current third fiscal quarter.

Beginning with the first fiscal quarter of this year, we started reporting for our two principal segments: specialty, which is comprised of the higher margin Talent Magnet and RemX units; and commercial, which consists of our light industrial and franchise business units. We believe this reporting is facilitating a better and deeper understanding of RemedyTemp, and exemplifying our strategic focus and the opportunities for growth.

Revenue in the specialty segment for the 2006 second quarter amounted to $25.3 million versus $25.8 million last year. Within this segment, year-over-year clerical revenue declined in the second quarter, primarily due to the restructuring of offices within Talent Magnet, and the closure of offices not meeting profit goals.

The Talent Magnet business accounted for 47% of the segment s revenue for the fiscal 2006 second quarter, versus 56% last year.

RemX comprised roughly 53% of the segment s revenue, increasing nearly 19% compared with approximately 44% of revenue in last year s second quarter.

With RemX gross margins of nearly 40%, it is clear to see the type of strong contributor this unit has become. RemX, by the way, is now contributing consistently to operating profit, and continuing its solid organic growth for the quarter.

Our smallest operation, direct hire, which is primarily driven through the specialty segment, experienced 46.9% revenue growth for the second quarter of fiscal 2006 over the corresponding prior year period, representing the 14th consecutive quarter of revenue increases. This operation, which has a gross margin of essentially 100%, comprised 13% of the specialty segment s revenue, and 3.4% of the company s total revenue, up from 2.3% last year.

The specialty segment recorded operating income for the 2006 second quarter of $574,000, compared with an operating loss of $183,000 last year. We believe there is significant further opportunity for operating margin expansion in this segment.

Revenue for the commercial segment was $99.3 million for the 2006 second quarter, almost equal to the $99.5 million last year, with a slight decline due to the exited accounts. Operating contribution rose 14% to $6.6 million, from $5.8 million a year ago.

Within the commercial segment, light industrial comprised 50.8% of total revenue for the second quarter of fiscal 2006, compared with 51.8% a year ago. Light industrial revenue was down 2.1% compared with the second quarter last year, essentially all directly attributable to the exited accounts.

On a consolidated basis, gross margin for the second quarter rose to 21.7% from 19.8% a year ago, and gross profit dollars rose 8.8%, or $2.2 million, to $27 million from $24.8 million last year.

Lower workers comp expense helped generate the gross margin increase, accounting for about 1.2 percentage points. Our direct hire business accounted for approximately 0.9 percentage points of the increase. Improved mix and pricing helped us achieve a 0.1 percentage point increase, offset somewhat by the negative impact of other burdens, equating to 0.3 percentage points.

Included in this improvement in workers compensation is an accrual adjustment of $1.1 million related to prior periods. This adjustment is based on our actuarial analysis and favorable trends in the frequency of claims. This favorable adjustment was somewhat offset by an accrued liability of $492,000 in cost of goods sold and $191,000 in interest expense for state unemployment insurance related to the acquisition of our Tennessee franchise in 2003.

Improved workers compensation costs should continue to benefit our performance in fiscal 2007. Workers compensation expense continues to drop for several reasons. First, we are experiencing a reduced severity of claims, largely reflecting our changed strategies in the type of assignments we accept, the way we screen associates, improvements in our business mix, and our claims handling. We are also benefiting from California legislative reforms that are now fully in place.

I mentioned earlier, and you have heard us speak about this before, that part of our strategy has been to concentrate on smaller and mid-sized accounts, which by their nature command greater margins. These are customers that generate annual revenue with us of less than $5 million. The smaller account focus is part of all our business units, and generated more than 75.5% of total revenue for the 2006 second quarter, compared with 71.7% a year ago.

Our largest individual client represented less than 4% of total revenue for the second quarter, and our ten largest customers combined comprised 21%. The total customer count for the quarter, as anticipated, was down 7.8% for the quarter, reflecting the elimination of lower margin accounts and 30 office closures since the second quarter of fiscal 2005.

On a consolidated basis, revenue continues to improve, with clerical and professional representing 30.7% of total company revenue in the second quarter versus 31% in the same period last year.

For the past three years, we have been consistently working to create broader geographic balance. For the 2006 second quarter, 63.3% of our total revenue was generated outside of California, compared with 60.6% last year.

During the second quarter, our licensees generated a 1.7% increase in revenue over the prior year period, contributing to a 4.4% increase in licensee gross profit. This positive trend began about a year ago.

Selling and administrative expense for the second quarter was 1.9% lower than that of a year ago, and represented 15.2% of total revenue, versus 15.5% last year.

SG&A represented 70.3% of gross profit in the 2006 second quarter, compared with 77.9% a year ago.

Depreciation and amortization expense was also lower for the 2006 second quarter versus the corresponding period last year.

All of this translated to net income of $568,000, equal to $0.06 per fully diluted share for the second quarter. For the corresponding second quarter last year, we sustained a $1.4 million, or $0.15 per share, net loss.

Days outstanding for the quarter amounted 43.5 days, compared with 42.3 days a year ago. The over 60 days portion is about 5%.

I m not going to repeat all of the details for the year-to-date period other than saying that consolidated revenue for the first half of this current year amounted to $258.6 million versus $262.6 million for the first six months of the prior year. We achieved net income of $2.7 million, equal to $0.28 per fully diluted share, compared with a net loss of $1.4 million, or $0.16 per share, last year.

RemedyTemp has always maintained a solid conservative balance sheet. Cash and investments amounted to $54.4 million, with approximately $23.2 million of that amount in restricted cash and investments, pledged to collateralize workers compensation claims. Those funds are invested for the company s benefit. The restricted cash amount can be reduced by substituting letters of credit to the extent RemedyTemp has availability under its credit facility. At the end of the quarter, available capacity was $14.2 million.

The current ratio at April 2nd, 2006, was approximately 2.5 times. Shareholders equity totaled $65 million, and we continue to have no debt.

At the close of the second quarter, there were 230 offices in 35 states, of which 132 were company-owned, including 37 REMX offices and 98 licensed or franchise locations. Approximately 60.8% of revenue for the quarter was derived from company-owned operations, versus 61.7% last year.

I will now turn the call back to Greg.

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Thanks, Monty. Fiscal 2006 is proving to be the year in which we are truly beginning to leverage our investments and cost reduction measures made over the past several years to help us achieve sustainable, profitable growth.

And it s proving to be the year that shareholders will benefit too, as per the transaction we announced this morning, which I mentioned earlier has unanimous support of the RemedyTemp Board of Directors. Three of our Board members, including myself, our Chairman Paul Mikos, and our founder, Bob McDonough, have entered into voting agreements with the buyers to support the transaction, representing approximately 24% of RemedyTemp shares.

Once completed, the combined company will have revenues more than $1 billion, and will become a very formidable national leader in our industry. Until we get further along in the process, there s really not much more we can comment on, but in case there are any questions that we

were not able to answer, we d be pleased to do so now. Operator, would you please assemble the Q&A roster?

Q U E S T I O N S A N D A N S W E R S

Operator

Thank you. [Operator Instructions] Your first question will come from the line of Tobey Summer for Robinson Humphrey. Please proceed.

Tobey Summer - *Robinson Humphrey - Analyst*

Two questions. I ll start out by commenting saying it ll pertain to an issue from a coverage standpoint, but we enjoyed covering you. And congratulations on the sale. And then my questions would be could you describe the process of the sale? And could you comment on what the strength is that you re seeing in [perm], any particular markets in particular?

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Tobey, there s a little bit of a distraction on the line here. Can you repeat your question, please?

Tobey Summer - *Robinson Humphrey - Analyst*

Sure. Two questions. One, could you describe the sales process? And two, could you describe what markets are driving the strength in [perm] currently?

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Okay. Taking your first question regarding the process, I think at this point we d prefer to comment on that in our proxy statement. And we ll have full disclosure there.

Relative to your second question, relative to the strength of [perm], a lot of the [perm] is being derived from our specialty unit as well as our franchise unit. And the significance of that is we re seeing the benefit of a strong economy with the growth in the GDP. We re seeing the jobs created in the BLS every month. Last month was about 140,000. Before that, just a couple of hundred thousand. When we see those kinds of numbers and robust GDP, it really is kind of the perfect storm for direct hire.

In addition to that, we ve bulked our recruiting talent. We have in our specialty units, our Talent Magnet and RemX units, we ve added a number of executive recruiters that have helped in support of the direct hire business. And just it s the view that we entered the quarter strong on direct hire, and we are entering the third quarter strong. We re really very confident that at least for the foreseeable future, direct hires should be and continue to be pretty robust.

Tobey Summer - *Robinson Humphrey - Analyst*

Thank you very much, and congratulations again on the sale.

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Thank you, Tobey.

Operator

Your next question comes from the line of Ty Govatos from CL King. Please proceed.

Ty Govatos - *CL King - Analyst*

No real questions. Just wanted you to know I ll miss the coverage also. Nice quarter. And Monty, I won t ask you about the tax rates anymore.

Monty Houdeshell - *RemedyTemp Inc. - SVP and Chief Administrative Office*

Thanks, Ty.

Ty Govatos - *CL King - Analyst*

Have a good one.

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Thanks, Ty.

Operator

Gentlemen, there are no further questions at this time. Please proceed with closing remarks.

Greg Palmer - *RemedyTemp Inc. - President and CEO*

Thank you, operator. Closing remarks are as follows. We appreciate your continuing support of RemedyTemp, and we thank you for joining us today, especially on such short notice. As the transaction proceeds, we ll keep you informed. But as always, please call either one of us at any time should any questions arise. Thank you.

Operator

Thank you for your participation in today s conference. This concludes the presentation.

Additional Information and Where to Find It

RemedyTemp has agreed to file a proxy statement in connection with the proposed acquisition. The proxy statement will be mailed to the shareholders of RemedyTemp. RemedyTemp s shareholders are urged to read the proxy statement and other relevant materials when they become available because they will contain important information about the acquisition and RemedyTemp. Investors and security holders may obtain free copies of these documents (when they are available) and other documents filed with the Securities and Exchange Commission at the SEC s web site at www.sec.gov. In addition, investors and security holders may obtain free copies of the documents filed with the SEC by RemedyTemp by going to RemedyTemp s Investor Relations page on its corporate website at www.remedytemp.com.

RemedyTemp and its officers and directors may be deemed to be participants in the solicitation of proxies from RemedyTemp s shareholders with respect to the acquisition. Information about RemedyTemp executive officers and directors and their ownership of RemedyTemp common stock is set forth in the proxy statement for the RemedyTemp 2006 Annual Meeting of Shareholders, which was filed with the SEC on January 13, 2006. Investors and security holders may obtain more detailed information regarding the direct and indirect interests of RemedyTemp and its respective executive officers and directors in the acquisition by reading the preliminary and definitive proxy statements regarding the merger, which will be filed with the SEC.