

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For The Six Months Ended May 1, 1998

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	13-5658129
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1221 Avenue of the Americas, New York, New York	10020
-----	-----
(Address of principal executive offices)	(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  
--- ---

The number of shares of common stock, \$.10 par value, outstanding as of June 5, 1998 was 14,922,904.

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 INCOME

(UNAUDITED)

<TABLE>

<CAPTION>

	Six Months Ended		Three Months Ended		
	May 1, 1998	May 2, 1997	May 1, 1998	May 2, 1997	
	-----	-----	-----	-----	
	(Dollars in thousands, except per share data)				
	<C>	<C>	<C>	<C>	
NET SALES:					
Sales of services	\$ 733,712	\$ 596,658	\$ 390,132	\$ 325,834	
Sales of products	40,386	37,845	22,451	19,869	
	-----	-----	-----	-----	
	774,098	634,503	412,583	345,703	
	-----	-----	-----	-----	
COSTS AND EXPENSES:					
Cost of sales					
Services	692,643	554,566	367,410	300,950	
Products	23,731	22,740	13,625	11,628	
Selling and administrative	27,656	24,872	14,385	12,974	
Research, development and engineering	6,504	6,033	3,537	3,086	
Depreciation and amortization	10,122	10,173	5,093	5,115	
	-----	-----	-----	-----	
	760,656	618,384	404,050	333,753	
	-----	-----	-----	-----	
OPERATING PROFIT	13,442	16,119	8,533	11,950	
OTHER INCOME (EXPENSE):					
Interest income	1,315	589	554	277	
Other income - net	118	188	90	14	
Foreign exchange (loss) gain - net	(657)	179	(204)	(116)	
Interest expense	(2,787)	(2,922)	(1,413)	(1,427)	
	-----	-----	-----	-----	
Income before income taxes and items shown below	11,431	14,153	7,560	10,698	
Income tax provision	(4,734)	(6,119)	(3,193)	(4,581)	
Equity in net income of joint ventures--Note E		3,600		948	
Minority interests in net loss (income) of consolidated subsidiaries	207	422	(48)	69	
	-----	-----	-----	-----	

NET INCOME	\$ 6,904	\$ 12,056	\$ 4,319	\$ 7,134
------------	----------	-----------	----------	----------

Per Share Data

Basic:

Net income per share	\$0.46	\$0.83	\$0.29	\$0.49
----------------------	--------	--------	--------	--------

Weighted average number of shares--Note F	14,902,093	14,585,853	14,912,082	14,620,817
---	------------	------------	------------	------------

Diluted:

Net income per share	\$0.45	\$0.80	\$0.28	\$0.47
----------------------	--------	--------	--------	--------

Weighted average number of shares--Note F	15,362,239	15,026,700	15,344,831	15,035,564
---	------------	------------	------------	------------

</TABLE>

See accompanying notes.

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

<TABLE>  
<CAPTION>

	May 1, 1998	October 31, 1997 (a)		
	<C>	<C>		
	(Dollars in thousands)			
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 25,176	\$ 54,234		
Short-term investments	108	105		
Trade accounts receivable less allowances of \$5,447 (1998) and \$5,067 (1997)			249,716	227,548
Inventories--Note B	38,225	35,953		
Deferred income taxes	6,600	8,102		
Prepaid expenses and other assets	11,278	9,832		
<b>TOTAL CURRENT ASSETS</b>	<b>331,103</b>	<b>335,774</b>		
Investment in securities	750	750		
Property, plant and equipment less allowances for depreciation and amortization of \$48,225 (1998) and \$45,372 (1997)--Note C		69,150	62,495	
Deferred income taxes and other assets	9,045	5,629		
Intangible assets-net of accumulated amortization of \$10,934 (1998) and \$9,399 (1997)--Note G	15,428	14,074		
	<b>\$ 425,476</b>	<b>\$ 418,722</b>		

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Notes payable to banks	\$ 3,072	\$ 4,410		
Current portion of long-term debt--Note C		1,399	1,949	
Accounts payable	61,400	59,589		
Accrued wages and commissions		36,759	34,065	
Other accruals	32,933	35,180		
Customer advances and other liabilities		26,875	20,518	
Income taxes	3,221	10,608		

TOTAL CURRENT LIABILITIES	165,659	166,319
Long-term debt--Note C	54,747	55,447
Minority interests	19,171	19,388
STOCKHOLDERS' EQUITY--Notes C, D 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 and outstanding--14,919,784 shares (1998) and 14,883,143 shares (1997)	1,492	1,488
Paid-in capital	36,275	34,894
Retained earnings	148,259	141,355
Cumulative foreign currency translation adjustment	(127)	(169)
	-----	-----
	185,899	177,568
	-----	-----
	<u>\$ 425,476</u>	<u>\$ 418,722</u>

</TABLE>

(a) The Balance Sheet at October 31, 1997 has been derived from the audited financial statements at that date.

See accompanying notes.

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

<TABLE>  
<CAPTION>

	Six Months Ended	
	May 1, 1998	May 2, 1997
	----	----
	(Dollars in thousands)	
	<C>	<C>
CASH PROVIDED BY (APPLIED TO) OPERATING ACTIVITIES		
Net income	\$ 6,904	\$ 12,056
Adjustments to reconcile net income to cash provided by (applied to) operating activities:		
Depreciation and amortization	10,122	10,173
Equity in net income of joint ventures		(3,600)
Minority interests	(207)	(422)
Accounts receivable provisions	1,293	1,559
Loss (gain) on foreign currency translation	127	(426)
Deferred income tax provision (benefit)	1,282	(561)
Other	50	(11)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(23,994)	(19,724)
Increase in inventories	(2,272)	(1,615)
Increase in prepaid expenses and other current asset	(1,249)	(1,705)
Increase in other assets	(3,154)	(1,393)
Increase in accounts payable	1,102	1,090
Increase in accrued expenses	1,255	5,041
Increase in customer advances and other liabilities	6,212	1,459
Decrease in income taxes payable	(7,442)	(981)
	-----	----
NET CASH (APPLIED TO) PROVIDED BY OPERATING ACTIVITIES	(9,971)	940

</TABLE>

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

<TABLE>  
<CAPTION>

	Six Months Ended			
	-----	-----		
	May 1,	May 2,		
	1998	1997		
	----	----		
	(Dollars in thousands)			
<S>	<C>	<C>		
CASH PROVIDED BY (APPLIED TO) INVESTING ACTIVITIES				
Maturities of investments		211	4,830	
Purchases of investments		(214)	(5,469)	
Investment in joint venture			(151)	
Proceeds from disposals of property, plant and equipment			338	202
Purchases of property, plant and equipment		(15,586)	(7,603)	
Proceeds from sale of joint venture			10,115	
Deferred gain on sale of joint venture			2,550	
Other	(1,990)			
	-----	-----		
NET CASH (APPLIED TO) PROVIDED BY INVESTING ACTIVITIES			(17,241)	4,474
	-----	-----		
CASH PROVIDED BY (APPLIED TO) FINANCING ACTIVITIES				
Payment of long-term debt		(1,250)	(1,249)	
Exercise of stock options		686	3,553	
(Decrease) increase in notes payable to banks		(1,207)	2,027	
	-----	-----		
NET CASH (APPLIED TO) PROVIDED BY FINANCING ACTIVITIES			(1,771)	4,331
	-----	-----		
Effect of exchange rate changes on cash		(75)	595	
	-----	-----		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			(29,058)	10,340
Cash and cash equivalents, beginning of period		54,234	13,277	
	-----	-----		
CASH AND CASH EQUIVALENTS, END OF PERIOD			\$ 25,176	\$ 23,617
	=====	=====		

SUPPLEMENTAL INFORMATION

Cash paid during the period:			
Interest expense	\$2,946	\$2,912	
Income taxes, net of refunds	\$10,553	\$6,176	

</TABLE>

See accompanying notes.

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 May 1, 1998, and consolidated results of operations for the six and three months ended May 1, 1998 and May 2, 1997 and consolidated cash flows for the six months ended May 1, 1998 and May 2, 1997. Operating results for interim periods are not necessarily 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 October 31, 1997. The accounting policies used in preparing these financial statements are the same as those described in that Report. The 1997 financial statements contained herein have been reclassified to conform with the current year's presentation. The Company's fiscal year ends on the Friday nearest October 31.

#### Note B--Inventories

<TABLE>

<CAPTION>

Inventories consist of:

	May 1, 1998	October 31, 1997
	----	----
	(Dollars in thousands)	
	<C>	<C>
Services:		
Accumulated unbilled costs on:		
Service contracts	\$27,096	\$23,988
Long-term contracts	221	3,736
	-----	-----
	27,317	27,724
	-----	-----
Products:		
Materials and work-in-process	6,287	4,618
Service parts	2,471	2,318
Finished goods	2,150	1,293
	-----	-----
	10,908	8,229
	-----	-----
Total	\$38,225	\$35,953
	=====	=====

</TABLE>

The cumulative amounts billed, principally under long-term contracts, at May 1, 1998 and October 31, 1997, of \$23.4 million and \$17.3 million, respectively, are credited against the related costs in inventory. Substantially all of the amounts billed have been collected. Inventories have been reduced by accumulated amortization of rotatable spare parts and other inventory of \$11.1 million and \$12.5 million at May 1, 1998 and October 31, 1997, respectively.

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

##### Note C--Long-Term Debt and Financial Arrangements

Long-term debt consists of the following:

<TABLE>

<CAPTION>

	May 1, 1998	October 31, 1997
	-----	-----
	(Dollars in thousands)	
<S>	<C>	<C>
7.92% Senior Notes (a)	\$50,000	\$50,000
Term loan (b)	4,650	5,100
Notes payable (c) & (d)	1,496	2,296
	-----	-----
	56,146	57,396
Less amounts due within one year	1,399	1,949
	-----	-----
Total long-term debt	\$54,747	\$55,447
	=====	=====

</TABLE>

(a) On August 28, 1996, the Company issued \$50.0 million of Senior Notes in a private placement with institutional investors. The notes bear interest at 7.92% per annum, payable semi-annually on February 28 and August 28, and provide for amortization of principal in five equal annual installments beginning in August 2000. The notes were issued pursuant to Note Purchase Agreements, which contain various affirmative and negative covenants. One such covenant requires the Company to maintain a level of consolidated net worth which, under the formula in the agreements, was \$113.1 million at May 1, 1998. However, the terms of the Company's revolving Credit Agreement require the Company to maintain a consolidated net worth of \$129.9 million at May 1, 1998 (see below).

(b) In October 1994, the Company entered into a \$10.0 million loan agreement with Fleet Bank, which is secured by a deed of trust on land and buildings (book value at May 1, 1998 - \$14.3 million). The loan, which bears interest at 7.86% per annum, requires principal payments of \$225,000 per quarter and a final payment of \$1.7 million in October 2001.

(c) The balance at October 31, 1997 included a note payable (with interest payable at 90 day commercial paper rates) for \$550,000, which was due and paid on January 2, 1998.

(d) An unsecured loan of \$2.5 million from The Chase Manhattan Bank was made to a foreign subsidiary on January 18, 1996 to finance the acquisition of a printing press. The loan, guaranteed by the Company, is being repaid in semi-annual payments of \$249,000, plus interest calculated at LIBOR (5.5% at May 1, 1998) plus 0.25%, through September 15, 2001.

On July 2, 1997, the Company entered into a \$75.0 million, three-year, syndicated, unsecured, revolving Credit Agreement ("Agreement") with a group of banks for which The Chase Manhattan Bank and Fleet Bank, N.A. are serving as co-agents. Borrowings under the facility will bear interest at various interest rates. The Company has the option to select the most favorable rate at the time of borrowing. The Agreement provides for the maintenance of various financial ratios and covenants, including a requirement that the Company maintain consolidated net worth (as defined) of \$110.0 million, plus 50% of consolidated net income for each completed fiscal year, (resulting in a requirement at May 1, 1998 to maintain consolidated net worth of \$129.9 million) and certain limitations on the extent to which the Company and its subsidiaries may incur additional indebtedness, liens and sale of assets. There were no outstanding borrowings under the Agreement at May 1, 1998.

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

Note D--Stockholders' Equity

Changes in the major components of stockholders' equity for the six months ended May 1, 1998 are as follows:

<TABLE>

<CAPTION>

	Common Stock	Paid-In Capital	Retained Earnings	
	-----	-----	-----	
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	
Balance at October 31, 1997		\$ 1,488	\$ 34,894	\$ 141,355
Net income for the six months			6,904	
Issuance of 13,381 shares to ESOP		1	698	
Stock options exercised - 23,260 shares		3	683	
	-----	-----	-----	
Balance at May 1, 1998		\$ 1,492	\$ 36,275	\$ 148,259
	=====	=====	=====	

</TABLE>

The other component of stockholders' equity is a cumulative, unrealized, foreign currency translation adjustment due to certain European subsidiaries of the Company, the functional currencies of which are the local currencies.

#### Note E--Summarized Financial Information of Joint Ventures

In the first quarter of 1997, the Company sold its 50% interest in Telelistas Editora Ltda. ("Telelistas"), a Brazilian joint venture, which is the official publisher of telephone directories in Rio de Janeiro for the government-owned telephone company, and received \$2.5 million in excess of its carrying value at the date of sale. The Company has continued to grant credit and guarantee the venture's obligations with respect to certain import financing, principally for the printing of telephone directories by the Company's Uruguayan division. Accordingly, the gain on the sale has been deferred until the Company's obligations, if any, are determined. The amounts due to the Company's Uruguayan division and the obligations to which the Company is a guarantor, which aggregated \$5.9 million at May 1, 1998, are secured by the accounts receivable of Telelistas.

In the fourth quarter of 1997, the Company sold its 12-1/2% interest in Pacific Access Pty. Ltd., its Australian venture, resulting in a gain of \$12.8 million. This venture was responsible throughout Australia for the marketing, sales and compilation functions of all yellow pages directories of Telstra, the Australian telephone company.

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

#### Note E--Summarized Financial Information of Joint Ventures--(Continued)

The following summarizes the operating results of the joint ventures:

<TABLE>

<CAPTION>

	Six Months Ended		Three Months Ended		
	-----		-----		
	May 2, 1997		May 2, 1997		
	-----		-----		
	(Dollars in thousands)				
	Total	Company's Equity	Total	Company's Equity	
<S>	<C>	<C>	<C>	<C>	
Revenues	\$255,507		\$151,030		
Costs and expenses		246,494		138,625	
Income tax provision		2,324		4,580	
	-----	-----	-----	-----	
Net income	\$ 6,689		\$ 7,825		
	=====		=====		
Net income of Australian joint venture		\$ 3,497	\$ 408	\$ 7,825	\$ 948
Net income of Brazilian joint venture		3,192	3,192		
	-----	-----	-----	-----	

\$ 6,689                      \$ 7,825  
 =====

Company's equity in net income of joint ventures                      \$ 3,600                      \$ 948  
 =====

</TABLE>

Note F--Per Share Data

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share". Under the new requirements for 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.

Note G--Acquisitions

During the second quarter of fiscal year 1998, the Company acquired a temporary services business for a total of \$1.0 million in cash, which resulted in an increase in intangible assets of \$1.0 million.

During the first quarter of fiscal year 1998, the Company acquired community-based telephone directories, principally in Georgia, for \$1.7 million, which includes consideration of approximately \$900,000, based on a percentage of estimated revenues to be collected through April 1999. Additional consideration up to an aggregate of \$2.1 million is contingent on annual earnings in fiscal years 1998 through 2002. Such contingent consideration is not included in the acquisition cost total above, but will be recorded when, and if, the future earnings requirements have been met. The acquisition resulted in a \$1.7 million increase in intangible assets, which are being amortized over a period of fifteen years.

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

SIX MONTHS AND THREE MONTHS ENDED MAY 1, 1998 COMPARED TO THE SIX MONTHS AND THREE MONTHS ENDED MAY 2, 1997

The information which appears below relates to current and prior periods, the results of operations for which periods are not necessarily indicative of the results which may be expected for any subsequent periods. Management has made no predictions or estimates as to future operations and no inferences as to future operations should be drawn.

The following summarizes the Company's unaudited results of operations by segment:

<TABLE>  
 <CAPTION>

	Six Months Ended		Three Months Ended	
	May 1, 1998	May 2, 1997	May 1, 1998	May 2, 1997
	(Dollars in thousands)			
	<C>	<C>	<C>	<C>
Net Sales:	-----			
Staffing Services	\$ 585,141	\$ 462,474	\$ 315,527	\$ 251,882
Telephone Directory	36,470	36,912	20,356	22,018
Telecommunications Services	84,880	63,323	42,443	35,255
Computer Systems	32,202	37,775	14,448	18,735
Electronic Publication and Typesetting Systems	40,590	38,010	22,548	19,916
Elimination of intersegment sales	(5,185)	(3,991)	(2,739)	(2,103)
Total Net Sales	\$ 774,098	\$ 634,503	\$ 412,583	\$ 345,703

Segment Profit (Loss):

Staffing Services	\$ 12,642	\$ 11,530	\$ 7,825	\$ 7,380
Telephone Directory	(411)	858	484	1,539
Telecommunications Services	7,001	8,326	3,207	4,962
Computer Systems	(622)	1,181	(665)	283
Electronic Publication and Typesetting Systems		732	(616)	763
Elimination	(12)			410
Total Segment Profit	19,342	21,267	11,614	14,574
General corporate expenses	(5,900)	(5,148)	(3,081)	(2,624)
Total Operating Profit	13,442	16,119	8,533	11,950
Interest and other income - net	1,433	777	644	291
Interest expense	(2,787)	(2,922)	(1,413)	(1,427)
Foreign exchange (loss) gain - net	(657)	179	(204)	(116)
Income Before Income Taxes, Equity in Joint Venture Earnings and Minority Interests	\$ 11,431	\$ 14,153	\$ 7,560	\$ 10,698

</TABLE>

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

SIX MONTHS AND THREE MONTHS ENDED MAY 1, 1998 COMPARED  
TO THE SIX MONTHS AND THREE MONTHS ENDED MAY 2, 1997--Continued

Forward-Looking Statements Disclosure

In order to keep the Company's stockholders and investors informed of the Company's future plans and objectives, this Quarterly Report on Form 10-Q and other reports and statements issued by the Company and its officers from time-to-time contain, among other things, certain statements concerning the Company's future plans, objectives, performance, intentions and expectations that are, or may be deemed to be, "forward-looking statements". The Company's ability to do this has been fostered by the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information so long as those statements are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. The Company believes that it is in the best interests of its stockholders to take advantage of the "safe harbor" provisions of that Act.

Although the Company believes that its expectations are based on reasonable assumptions, 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, general economic, competitive and other business conditions; 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; changes in customer attitudes toward outsourcing; the Company's ability to recruit qualified employees to satisfy customer requirements for the Company's staffing services; the Company's ability to meet competition in its highly competitive markets with minimal impact on margins; intense price competition and pressure on margins; the Company's ability to maintain superior technological capability; 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, and achieve customer acceptance of such products and systems in markets characterized by rapidly changing

technology and frequent new product introductions; risks inherent in new product introductions, such as start-up delays, uncertainty of customer acceptance, and dependence on third parties for some product components; changes in laws, regulations and government policies; the Company's performance on contracts; the effects of inclement weather; timing of customer acceptances of systems; and the Company's ability to attract and retain certain classifications of technologically qualified personnel, particularly in the areas of research and development and customer service. These and certain other factors are discussed in the Company's Annual Report on Form 10-K for the year ended October 31, 1997 and may be discussed in reports hereafter filed with the Securities and Exchange Commission, including this Report.

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

### SIX MONTHS ENDED MAY 1, 1998 COMPARED TO THE SIX MONTHS ENDED MAY 2, 1997

#### Results of Operations - Summary

In the six-month period of fiscal 1998, net sales increased from the comparable period in fiscal 1997 by \$139.6 million, or 22%, to \$774.1 million. The increase in 1998 net sales resulted primarily from a \$122.7 million increase in sales by the Staffing Services segment and a \$21.6 million increase in sales by the Telecommunications Services segment, partially offset by a \$5.6 million decrease in sales by the Computer Systems segment.

The Company's pretax income before joint venture earnings and minority interests decreased by \$2.7 million, or 19%, to \$11.4 million in 1998. The operating profit of the Company's segments decreased by \$1.9 million, or 9%, to \$19.3 million in 1998. While the Staffing Services segment and the Electronic Publication and Typesetting Systems segment increased their operating profits, the decrease in results of the three telecommunications segments more than offset these gains.

Net income in the first six months of 1998 was \$6.9 million, compared with net income of \$12.1 million in the first six months of 1997. The 1997 net income included the Company's portion (\$3.6 million) of the earnings of two joint ventures prior to their sale. One of the joint ventures was sold in the first quarter of fiscal 1997 and the other was sold in the fourth quarter of fiscal 1997.

#### Results of Operations - By Segment

Sales of the Staffing Services segment increased by \$122.7 million, or 27%, to \$585.1 million in 1998. The segment's revenue growth was primarily driven by additional revenue from new and existing large, national accounts, including growth in subcontractors' pass-through revenue from national accounts and higher demand for non-recruited payrolling services. This segment's operating profit increased by \$1.1 million, or 10%, to \$12.6 million, compared with \$11.5 million in 1997. Approximately \$29.9 million, or 24%, of the segment's 1998 sales increase was due to pass-through costs primarily related to the use of subcontractors to service large national contracts, which increased from \$63.1 million in 1997 to \$93.0 million in 1998. Of the remaining sales growth, approximately \$18.6 million was from business with new customers, and \$74.2 million arising from existing customers, including non-recruited payrolling services. The increase in the segment's operating profit was due to the increase in sales volume, partially offset by a decrease in gross margin of approximately 0.3 percentage points and higher overhead costs. The decrease in gross margin percentage was due to higher subcontractor usage, a substantial portion of which is billed without a mark-up, and lower margins on the increasing business with large, national, managed service accounts. Overhead costs have increased due to start-up costs incurred in connection with the opening of new offices to service national accounts, related infrastructure costs as additional regional and area management is required to support expansion and higher recruiting costs in a contracting labor market.

The Telephone Directory segment's sales decreased by \$442,000, or 1%, to \$36.5 million in fiscal 1998. This segment incurred an operating loss of \$411,000 in 1998, compared to an operating profit of \$858,000 in 1997. The sales decrease was primarily due to a \$2.0 million decrease in system sales, a \$2.0 million decrease in Uruguayan printing, and a \$481,000 decrease in telemarketing sales, partially offset by an increase in independent directory sales of \$4.2 million. The increase in independent directory sales was attributable to fourteen new directories published in the six months ended May 1, 1998 than in the comparable period in fiscal 1997. The operating loss in fiscal 1998 was due to increased overhead, which included approximately \$938,000 of costs to

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

### SIX MONTHS ENDED MAY 1, 1998 COMPARED TO THE SIX MONTHS ENDED MAY 2, 1997--Continued

#### Results of Operations - By Segment--Continued

enter new directory markets, and the decrease in high margin systems sales. Some of the segment's services are rendered under various short and long-term contracts, some of which expired in 1997, while others were renewed and new contracts were awarded to the segment. A contract with one customer, which accounted for approximately 19% of the segment's revenues in the six months ended May 1, 1998, will expire in June 1998 and not be renewed. However, the segment has obtained several significant contracts which began in fiscal 1997 and 1998. Other contracts are scheduled to expire from 1998 through 2001.

The Telecommunications Services segment's sales increased by \$21.6 million, or 34%, to \$84.9 million in fiscal 1998, while its operating profit decreased by \$1.3 million, or 16%, to \$7.0 million in fiscal 1998, compared with \$8.3 million in 1997. The sales increase was due to a 97% increase in the Business Systems division and a 10% increase in the Construction division. The sales increases resulted from several factors, including required upgrading of core telecommunications infrastructure by existing customers, the demand for the segment's services in the wireless area, and the continued emphasis of outsourcing by major telecommunications providers. Operating results decreased due to a 3.7 percentage point decrease in gross margins, resulting from a greater proportion of sales being contributed by lower margin business system services, and a shift in product mix toward lower margin construction services stemming from adverse weather conditions, which halted higher margin cable-laying in Florida for six weeks. Overhead increased by 44% to support the sales growth and the geographic expansion of this segment. Services performed under a contract with a telephone carrier, which amounted to 11% of the segment's revenues in the six months ended May 1, 1998, are expected to be substantially reduced or eliminated in the future.

The Computer Systems segment's sales decreased by \$5.6 million, or 15%, to \$32.2 million in 1998 and its operating loss was \$622,000, compared with an operating profit of \$1.2 million in 1997. The decrease in sales was primarily due to a decrease in sales of conservation services to utilities, resulting from the phase-out under several large contracts with customers, which no longer require the segment's services, and a reduction of system enhancement sales. The decrease was slightly offset by higher revenue generated by the Maintech division, which provides maintenance services to the segment's customers, as well as to customers that have purchased systems and networks from others. The operating loss was due to lower sales volume of conservation services and the reduction, in 1998, of high margin system enhancement sales which benefited operating profit in 1997. Under the completed contract method of accounting used by this segment, revenues and related costs are recognized in income upon acceptance by the customer. This segment's results on a quarter-to-quarter basis are highly dependent on the acceptance by customers under contract for the segment's directory assistance systems, which occurs periodically rather than evenly.

The Electronic Publication and Typesetting Systems segment's sales increased by \$2.6 million, or 7%, to \$40.6 million in 1998, and its operating profit was \$732,000, compared with an operating loss of \$616,000 in 1997. The fiscal 1998

sales increase resulted primarily from an increase in domestic sales of systems and equipment, partially offset by a decrease in systems and equipment sales of its international operations, principally in the Pacific Rim, and lower customer service sales in the domestic market. Operating results increased due to the sales increase and a 1.4 percentage point increase in gross margins. Systems and equipment gross margins increased by 4.3 percentage points, due to a greater proportion of sales being contributed by higher margin products and to lower manufacturing costs, partially offset by customer service gross margins decreased by 5.9 percentage points

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

##### SIX MONTHS ENDED MAY 1, 1998 COMPARED TO THE SIX MONTHS ENDED MAY 2, 1997--Continued

###### Results of Operations - By Segment--Continued

primarily due to lower revenues and higher material costs. The markets in which this segment competes are marked by rapidly changing technology, with sales in fiscal 1998 of equipment introduced within the last three years comprising approximately 83% of equipment sales.

###### Results of Operations - Other

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

Interest income increased by \$726,000, or 123%, to \$1.3 million in 1998, primarily due to an increase in the average amount of funds available for investment during the six-month period of fiscal 1998, compared with the same period in fiscal 1997.

Other income was reduced by \$70,000 in 1998 primarily due to a decrease in various items of income, partially offset by \$262,000 of fees paid in 1997, compared to no fees in 1998, resulting from the discontinuance of sales of receivables under the Company's former securitization program.

In the six months of 1998, a significant strengthening of the U.S. dollar compared to other currencies resulted in a foreign exchange loss of \$657,000 before the Company's hedging program became effective, which mitigated any further losses. The foreign exchange gain in the six months of 1997 of \$179,000 was due to favorable currency movements.

Interest expense decreased by \$135,000, or 5%, to \$2.8 million in 1998. The decrease was primarily due to lower average outstanding loan balances.

The Company's effective tax rate was reduced to 41% in 1998 from 43% in 1997. The higher effective income tax rates in 1997 resulted from losses incurred by the Company's 59%-owned subsidiary, for which no tax benefit was recognized.

The Company's share of the net income of its two joint ventures was \$3.6 million in 1997. Both ventures were sold in fiscal 1997; the Brazilian venture in January 1997 and the Australian venture in September 1997. The Company has continued to grant credit and guarantee the Brazilian venture's obligations. As a result, the gain on the sale of approximately \$2.5 million will be deferred until the Company's obligations, if any, are determined.

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

##### THREE MONTHS ENDED MAY 1, 1998 COMPARED TO THE THREE MONTHS ENDED MAY 2, 1997

## Results of Operations - Summary

In the three-month period of fiscal 1998, net sales increased by \$66.9 million, or 19%, to \$412.6 million. The increase in 1998 net sales resulted primarily from a \$63.6 million increase in sales by the Staffing Services segment and a \$7.2 million increase in sales by the Telecommunications Services segment, partially offset by a \$4.3 million decrease in sales by the Computer Systems segment.

The Company's pretax income before joint venture earnings and minority interests decreased by \$3.1 million, or 29%, to \$7.6 million in 1998. The operating profit of the Company's segments decreased by \$3.0 million, or 20%, to \$11.6 million in 1998. While the Staffing Services segment and the Electronic Publication and Typesetting Systems segment increased their operating profits, the decrease in results of the three telecommunications segments more than offset these gains.

Net income in the three months of 1998 was \$4.3 million, compared with net income of \$7.1 million in the three months of 1997. The 1997 net income included the Company's portion (\$948,000) of earnings of a joint venture, which was sold in the fourth quarter of fiscal 1997.

## Results of Operations - By Segment

Sales of the Staffing Services segment increased by \$63.6 million, or 25%, to \$315.5 million in 1998. The segment's revenue growth was primarily driven by additional revenue from new and existing large, national accounts, including growth in subcontractors' pass-through revenue from national accounts and higher demand for non-recruited payrolling services. This segment's operating profit increased by \$445,000, or 6%, to \$7.8 million in 1998, compared with \$7.4 million in 1997. Approximately \$19.0 million, or 30%, of the segment's 1998 sales growth was due to pass-through costs, primarily related to the use of subcontractors to service large national contracts, which increased from \$37.1 million in 1997 to \$56.1 million in 1998. Of the remaining sales growth, approximately \$7.2 million was from business with new customers, and \$37.4 million arising from existing customers, including non-recruited payrolling services. The increase in the segment's operating profit was due to the increase in sales volume, partially offset by a decrease in gross margin of approximately 0.4 percentage points and higher overhead costs. The decrease in gross margin percentage was due to higher subcontractor usage, a substantial portion of which is billed without a mark-up, and lower margins on the increasing business with large, national, managed service accounts. Overhead costs have increased due to start-up costs incurred in connection with the opening of new offices to service national accounts, related infrastructure costs as additional regional and area management is required to support expansion and higher recruiting costs in a contracting labor market.

The Telephone Directory segment's sales decreased by \$1.7 million, or 8%, to \$20.4 million in fiscal 1998. This segment's operating profit decreased to \$484,000 in 1998, compared to a profit of \$1.5 million in 1997. The sales decrease was primarily due to a \$2.3 million decrease in Uruguayan printing, a \$1.8 million decrease in system sales and a \$335,000 decrease in telemarketing sales, partially offset by a \$2.3 million increase in independent directory sales. The increase in independent directory sales was due to ten new directories published in 1998. The decrease in the operating profit in 1998 was due to increased overhead, which included approximately \$500,000 of costs to enter new directory markets and the decrease in high margin system sales. Some of the segment's services are rendered under various short and long-term contracts, some of which expired in 1997, while others were renewed and new contracts were awarded to the segment. A contract with one customer, which accounted for

## Results of Operations - By Segment--Continued

approximately 17% of the segment's revenues in the three months ended May 1, 1998 will expire in June 1998 and not be renewed. However, the segment has obtained several significant contracts which began in fiscal 1997 and 1998. Other contracts are scheduled to expire from 1998 through 2001.

The Telecommunications Services segment's sales increased by \$7.2 million, or 20%, to \$42.4 million in fiscal 1998, while its operating profit decreased by \$1.8 million, or 35%, to \$3.2 million in fiscal 1998, compared with \$5.0 million in 1997. The sales increase was primarily due to a 60% increase in the Business Systems division. The sales increase resulted from several factors, including required upgrading of core telecommunications infrastructure by existing customers, the demand for the segment's services in the wireless area, and the continued emphasis of outsourcing by the major telecommunications providers. Operating results decreased due to a 4.2 percentage point decrease in gross margins, resulting from a greater proportion of sales being contributed by lower margin business system services, and a shift in product mix toward lower margin construction services stemming from adverse weather conditions, which halted higher margin cable-laying in Florida for six weeks. Overhead increased by 36% to support the sales growth and the geographic expansion of this segment. Services, performed under a contract with a telephone carrier, which amounted to 10% of the segment's revenues in the three months ended May 1, 1998, are expected to be substantially reduced or eliminated in the future.

The Computer Systems segment's sales decreased by \$4.3 million, or 23%, to \$14.4 million in 1998 and its operating loss was \$665,000, compared to an operating profit of \$283,000 in 1997. The decrease in sales was primarily due to a reduction of system enhancement sales and a decrease in sales of conservation services to utilities, resulting from the phase-out under several large contracts with customers which no longer require the segment's services. The decrease was slightly offset by higher revenue generated by the Maintech division, which provides maintenance services to the segment's customers, as well as to customers that have purchased systems and networks from others. The operating loss was due to the reduction in 1998 of high margin system enhancement sales and lower sales volume of conservation services. Under the completed contract method of accounting used by this segment, revenues and related costs are recognized in income upon acceptance by the customer. This segment's results on a quarter-to-quarter basis are highly dependent on the acceptance by customers under contract for the segment's directory assistance systems, which occurs periodically rather than evenly.

The Electronic Publication and Typesetting Systems segment's sales increased by \$2.6 million, or 13%, to \$22.5 million in 1998, and its operating profit increased by \$353,000, or 86%, to \$763,000. The fiscal 1998 sales increase resulted primarily from increases in sales of systems and equipment in its domestic operations, offset, in part, by a decrease in its international operations, principally in the Pacific Rim. Operating results increased due to the increased sales volume, partially offset by a 2.4 percentage point decrease in gross margins. The decrease in margins is due principally to the sale of a greater portion of lower margin products and higher material costs. Operating expenses increased by \$191,000, but decreased 2.7 percentage points when expressed as a percentage of sales, improving profitability. The markets in which this segment competes are marked by rapidly changing technology, with sales in fiscal 1998 of equipment introduced within the last three years comprising approximately 84% of equipment sales.

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

### THREE MONTHS ENDED MAY 1, 1998 COMPARED TO THE THREE MONTHS ENDED MAY 2, 1997--Continued

#### Results of Operations - Other

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

Interest income increased by \$277,000, or 100%, to \$554,000 in the second quarter of 1998, compared with the second quarter of 1997, primarily due to an increase in the average amount of funds available for investment.

Other income increased by \$76,000 in 1998 primarily due to the absence in 1998 of \$35,000 of fees paid in 1997, resulting from the discontinuance of sales of receivables under the Company's former securitization program.

The foreign exchange losses were \$204,000 and \$116,000 in fiscal 1998 and 1997, respectively. The losses were due to unfavorable currency movements in the European currency markets. To reduce the potential adverse impact from foreign currency changes on the Company's foreign currency receivables, sales and firm commitments, foreign currency options and forward contracts are purchased.

The Company's share of the net income of its Australian joint venture was \$948,000 in 1997. The venture was sold in September 1997.

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

### Liquidity and Sources of Capital

Cash and cash equivalents decreased by \$29.0 million to \$25.2 million in 1998. Operating activities used \$10.0 million of cash in the six months of fiscal 1998. The principal uses of cash in operating activities for the six months ended May 1, 1998 were an increase in the level of accounts receivable of \$24.0 million and a decrease in income taxes payable of \$7.4 million. Primary among the factors providing cash flows to operating activities in 1998 were the Company's net income of \$6.9 million, augmented by \$10.1 million of depreciation and amortization, and a \$6.2 million increase in customer advances and other liabilities.

The principal factor in the cash applied to investing activities of \$17.2 million was the expenditure for property, plant and equipment of \$15.6 million.

Financing activities used \$1.8 million of cash to reduce long-term debt by \$1.3 million and notes payable by \$1.2 million, offset, in part, by \$686,000 received from the exercise of stock options.

In addition to its cash and cash equivalents, at May 1, 1998, the Company has a \$75.0 million, three-year, syndicated, unsecured credit line with a group of banks under a revolving Credit Agreement which extends to July 2, 2000. The Company made its first borrowing under the line on May 18, 1998. A loan of \$10.0 million was outstanding at May 31, 1998.

The Company believes that its current financial position, working capital, future cash flows and credit lines will be sufficient to fund its presently contemplated operations and satisfy its debt obligations. The Company has no material capital commitments. The Company may determine, from time-to-time in the future, to buy shares of its common stock.

### Year 2000 Compliance

The Company utilizes software and related technologies throughout its businesses that will be affected by the issues associated with the programming code in existing systems as the millennium (Year 2000) approaches. To ensure that the Company's internal systems and products offered for sale will continue to meet its internal needs and those of its customers, Volt's Enterprise-Wide Year 2000 Compliance Assurance Program is well under way.

The Program involves Volt employees and consultants identifying, correcting or reprogramming, and testing all programs and systems for Year 2000 compliance. In addition, the Company has addressed the issue with suppliers of systems on which certain of the Company's systems rely, and has requested verification that they will be timely compliant. Conversion and testing of systems applications is expected to cost approximately \$4.0 million, of which approximately \$800,000 was incurred and expensed in the six months ended May 1, 1998. The Company expects to complete the necessary modifications in 1998 and will conduct extensive

testing throughout 1999.

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PART II - OTHER INFORMATION

ITEM 4-- SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's 1998 Annual Meeting of Shareholders held on April 28, 1998, shareholders:

(a) elected the following to serve as directors of the Company until the 2000 Annual Meeting of the Shareholders by the following votes:

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	For	Vote Withheld
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Irwin B. Robins	13,275,394	956,215
Mark S. Kaplan	13,265,703	965,906
John R. Torell, III	13,268,399	963,210

(b) amended the Company's 1995 Non-Qualified Stock Option Plan to authorize the granting of options to non-employee directors of the Company:

For: 13,331,176      Against: 813,328      Abstain: 87,105

(c) ratified the action of the Board of Directors in appointing Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending October 30, 1998 by the following vote:

For: 14,178,948      Against: 10,078      Abstain: 42,583

There were no broker non-votes on any of the matters voted upon.

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PART II - OTHER INFORMATION--Continued

ITEM 6-- EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.01+ Amendment dated April 30, 1998 to Agreement between the Company and Irwin B. Robins.

15.01 Letter from Ernst & Young LLP

15.02 Letter from Ernst & Young LLP regarding interim financial information.

27.01 Financial Data Schedule (filed with electronic version only).

+ Management contract or compensation plan or arrangement.

(b) Reports on Form 8-K:

The only Report on Form 8-K filed during the quarter ended May 1, 1998 was a report dated April 15, 1998 (date of earliest event reported) reporting Item 5: Other Events and Item 7: Financial Statement, Pro Forma Financial Information and Exhibits. No financial statements or pro forma financial information were filed with that Report.

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: June 12, 1998

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

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EXHIBIT INDEX  
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EXHIBIT  
NUMBER

DESCRIPTION

- ----

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- 10.01+ Amendment dated April 30, 1998 to Agreement between the Company and Irwin B. Robins.
- 15.01 Letter from Ernst & Young LLP
- 15.02 Letter from Ernst & Young LLP regarding interim financial information.
- 27.01 Financial Data Schedule (filed with electronic version only).
- + Management contract or compensation plan or arrangement.

April 30, 1998

Irwin B. Robins, Esq.  
Volt Information Sciences, Inc.  
1221 Avenue of the Americas  
New York, NY 10020

RE: Employment Agreement Dated as of May 1, 1987 (the "Agreement")  
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Dear Mr. Robins:

This will confirm our understanding that, subject to the approval of the Board of Directors of Volt Information Sciences, Inc., the Agreement is hereby amended as follows:

1. Paragraph 1(a) is hereby amended so that the Employment Term shall end on April 30, 2000.

Please confirm your agreement to the foregoing by signing a copy of this letter and returning it to me.

Very truly yours,

BY: /s/ WILLIAM SHAW

-----  
William Shaw  
Chairman of the Board and President

Agreed to and accepted:

BY: /s/ IRWIN B. ROBINS

-----  
Irwin B. Robins

Exhibit 10.01

June 12, 1998

Securities and Exchange Commission  
Washington DC 20549

We are aware of the incorporation by reference in Post Effective Amendment No. 2 to Registration Statement No. 2-75618 on Form S-8 dated September 12, 1988, Post-Effective Amendment No. 3 to Registration Statement No. 2-70180 on Form S-8 dated April 8, 1983, Registration Statement No. 33-18565 on Form S-8 dated December 14, 1987, Registration Statement No. 333-13369 on Form S-8 dated October 3, 1996 and Registration Statement No. 333-45903 on Form S-8 dated February 10, 1998 of Volt Information Sciences, Inc. of our report dated June 2, 1998, relating to the unaudited condensed consolidated interim financial statements of Volt Information Sciences, Inc. which are included in its Form 10-Q for the quarter ended May 1, 1998.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Ernst & Young LLP

New York, New York

Exhibit 15.01

INDEPENDENT ACCOUNTANTS' REPORT ON REVIEW OF INTERIM  
FINANCIAL INFORMATION

To the Stockholders  
Volt Information Sciences, Inc.

We have reviewed the accompanying unaudited condensed consolidated balance sheet of Volt Information Sciences, Inc. and subsidiaries as of May 1, 1998, and the related condensed consolidated statements of income for the six and three month periods ended May 1, 1998 and May 2, 1997, and the related condensed consolidated statements of cash flows for the six month periods ended May 1, 1998 and May 2, 1997. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Volt Information Sciences, Inc. as of October 31, 1997, and the related consolidated statements of income and cash flows for the year then ended, not presented herein; and in our report dated December 17, 1997, we expressed an unqualified opinion on these consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of October 31, 1997, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

June 2, 1998

Exhibit 15.02

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