

ADMINISTAFF INC \DE\  
Form DEF 14A  
March 17, 2006

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OMB APPROVAL

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

**Administaff, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

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o Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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SEC 1913 (02-02)

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**Paul J. Sarvadi**  
**Chairman of the Board**  
**and Chief Executive Officer**

March 27, 2006

Dear Stockholder:

On behalf of your Board of Directors and management, you are cordially invited to attend the Annual Meeting of Stockholders to be held at Administaff's Corporate Headquarters, Centre I in the Auditorium, located at 22900 Hwy. 59 N. (Eastex Freeway), Kingwood, Texas 77339, on May 3, 2006 at 4:00 p.m.

It is important that your shares are represented at the meeting. Whether or not you plan to attend the meeting, please complete and return the enclosed proxy card in the accompanying envelope or vote using the telephone or Internet procedures that may be provided to you. Please note that voting using any of these methods will not prevent you from attending the meeting and voting in person.

You will find information regarding the matters to be voted on at the meeting in the following pages. Our 2005 Annual Report to Stockholders is also enclosed with these materials.

Your interest in Administaff is appreciated, and we look forward to seeing you on May 3rd.

Sincerely,

Paul J. Sarvadi  
Chairman of the Board and Chief Executive Officer

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**ADMINISTAFF, INC.  
A Delaware Corporation  
19001 Crescent Springs Drive  
Kingwood, Texas 77339-3802  
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held May 3, 2006  
Kingwood, Texas**

The Annual Meeting of the Stockholders of Administaff, Inc., a Delaware corporation (the Company), will be held at the Company's Corporate Headquarters in the Auditorium in Centre I, located at 22900 Hwy. 59 N. (Eastex Freeway), Kingwood, Texas 77339, on May 3, 2006 at 4:00 p.m., Central Daylight Savings Time, for the following purposes:

1. To elect two Class II directors to serve until the 2009 Annual Meeting of Stockholders or until their successors have been elected and qualified.
2. To approve the amendment and restatement of the 2001 Incentive Plan.
3. To ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the year ending December 31, 2006.
4. To act upon such other business as may properly come before the meeting or any reconvened meeting after an adjournment thereof.

Only stockholders of record at the close of business on March 6, 2006 are entitled to notice of, and to vote at, the meeting.

**It is important that your shares be represented at the Annual Meeting of Stockholders regardless of whether you plan to attend. Therefore, please mark, sign, date and return the enclosed proxy. If you are present at the meeting, and wish to do so, you may revoke the proxy and vote in person.**

By Order of the Board of Directors

John H. Spurgin, II  
*Senior Vice President, Legal,  
General Counsel and Secretary*

March 27, 2006  
Kingwood, Texas

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**ADMINISTAFF, INC.**  
**A Delaware Corporation**  
**19001 Crescent Springs Drive**  
**Kingwood, Texas 77339-3802**

**PROXY STATEMENT**

The accompanying proxy is solicited by the Board of Directors of Administaff, Inc., a Delaware corporation (the Company ), for use at the 2006 Annual Meeting of Stockholders to be held on May 3, 2006, and at any reconvened meeting after an adjournment thereof. The Annual Meeting of Stockholders will be held at 4:00 p.m., Central Daylight Savings Time, at the Company s Corporate Headquarters, Centre I in the Auditorium located at 22900 Hwy. 59 N. (Eastex Freeway), Kingwood, Texas 77339.

Stockholders of record may vote in one of four ways:

by attending the meeting and voting in person;

by signing, dating and returning your proxy in the envelope provided;

by submitting your proxy on the Internet at the address listed on your proxy card; or

by submitting your proxy using the toll-free number listed on your proxy card.

If your shares are held in an account at a brokerage firm or bank, you may submit your voting instructions by signing and timely returning the enclosed voting instruction form, by Internet at the address shown on your voting instruction form, by telephone using the toll-free number shown on that form, or by providing other proper voting instructions to the registered owner of your shares.

If you either return your signed proxy or submit your proxy using the Internet or telephone procedures that may be available to you, your shares will be voted as you direct. **If the accompanying proxy is properly executed and returned, but no voting directions are indicated thereon, the shares represented thereby will be voted FOR each of the proposals set forth in this proxy statement.** In addition, the proxy confers discretionary authority to the persons named in the proxy authorizing those persons to vote, in their discretion, on any other matters properly presented at the Annual Meeting of Stockholders. The Board of Directors is not currently aware of any such other matters. Any stockholder of record giving a proxy has the power to revoke it at any time before it is voted by (i) submitting written notice of revocation to the Secretary of the Company at the address listed above, (ii) submitting another proxy that is properly signed and later dated, (iii) voting again on the Internet or by telephone, or (iv) voting in person at the Annual Meeting. Stockholders who hold their shares through a nominee or broker are invited to attend the meeting but must obtain a signed proxy from the broker in order to vote in person.

The expense of preparing, printing and mailing proxy materials to the Company s stockholders will be borne by the Company. The Company s transfer agent, Mellon Investor Services, LLC, will assist in the solicitation of proxies from stockholders at a fee of approximately \$500 plus reimbursement of reasonable out-of-pocket expenses. In addition, proxies may be solicited personally or by telephone by officers or employees of the Company, none of whom will receive additional compensation. The Company will also reimburse brokerage houses and other nominees for their reasonable expenses in forwarding proxy materials to beneficial owners of the Company s Common Stock.

The approximate date on which this proxy statement and the accompanying proxy card will first be sent to stockholders is March 27, 2006.

At the close of business on March 6, 2006, the record date for the determination of stockholders of the Company entitled to receive notice of, and to vote at, the 2006 Annual Meeting of Stockholders or any reconvened meeting after an adjournment thereof, 27,527,765 shares of the Company s Common Stock, par value \$0.01 per share (the Common Stock ), were outstanding. Each share of Common Stock is entitled to one vote upon each of the matters to be voted on at the meeting. The presence, in person or by proxy, of a majority of the outstanding shares of Common Stock is required for a quorum. If a





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quorum is present at the meeting, under the Company's bylaws, action on a matter (other than the election of directors) shall be approved if the votes cast in favor of the matter exceed the votes cast opposing the matter. In addition, under the rules of the New York Stock Exchange, votes representing more than 50% of the Company's outstanding shares of Common Stock must be cast on the proposal to approve the amendment and restatement of the 2001 Incentive Plan. Directors of the Company shall be elected by a plurality vote. In determining the number of votes cast, shares abstaining from voting or not voted on a matter will not be treated as votes cast. Accordingly, although proxies containing broker non-votes (which result when a broker holding shares for a beneficial owner has not received timely voting instructions on certain matters from such beneficial owner) are considered shares present in determining whether there is a quorum present at the Annual Meeting, they are not treated as votes cast with respect to any matter. Thus, broker non-votes will have the effect of a vote against the proposal to approve the amendment and restatement of the 2001 Incentive Plan if votes representing fewer than 50% of the Company's outstanding stock are cast on the proposal, but will not affect the outcome of the voting on any other proposal.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The table below sets forth, as of March 6, 2006, certain information with respect to the shares of Common Stock beneficially owned by (i) each person known by the Company to beneficially own five percent or more of the Common Stock, (ii) each director and director nominee of the Company, (iii) each of the executive officers of the Company identified under the caption Compensation, and (iv) all directors, director nominees and executive officers of the Company as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent Of Class
Michael W. Brown	66,563	*
Jack M. Fields, Jr.	32,524	*
Eli Jones	6,311	*
Paul S. Lattanzio	53,021	*
Gregory E. Petsch	15,375	*
Richard G. Rawson	1,475,778 <sup>(2)</sup>	5.3%
Paul J. Sarvadi	2,686,148 <sup>(3)</sup>	9.6%
Austin P. Young	22,500	*
A. Steve Arizpe	324,391 <sup>(4)</sup>	*
Jay E. Mincks	256,580	*
John H. Spurgin, II	28,400	*
EARNEST Partners, L.L.C.	4,422,891 <sup>(5)</sup>	16.1%
AXA Financial, Inc.	1,510,730 <sup>(6)</sup>	5.5%
Goldman Sachs Asset Management, L.P.	2,553,252 <sup>(7)</sup>	9.3%
Executive Officers and Directors as a group (12 persons)	5,064,362	17.4%

\* Represents less than 1%.

(1) Except as otherwise indicated, each of the stockholders has sole voting and investment power with respect to the securities shown to be owned by such stockholder. The address for each officer and director is in care of

Administaff,  
 Inc., 19001  
 Crescent  
 Springs Drive,  
 Kingwood,  
 Texas  
 77339-3802.

The number of shares of common stock beneficially owned by each person includes options exercisable on March 6, 2006 or within 60 days after March 6, 2006 and excludes options not exercisable within 60 days after March 6, 2006. The number of shares of common stock beneficially owned by each person also includes unvested shares of restricted stock. Each owner of restricted stock has the right to vote his or her shares but may not transfer them until they have vested.

Name of Beneficial Owner	Options		Unvested
	Exercisable	Not Exercisable	Restricted Stock
Michael W. Brown	52,500	-0-	-0-

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Jack M. Fields, Jr.	17,500	-0-	-0-
Eli Jones	-0-	-0-	-0-
Paul S. Lattanzio	15,000	-0-	-0-
Gregory E. Petsch	15,000	-0-	-0-
Richard G. Rawson	308,037	-0-	13,267
Paul J. Sarvadi	428,167	-0-	26,667
Austin P. Young	22,500	-0-	-0-
A. Steve Arizpe	301,800	-0-	13,267
Jay E. Mincks	242,186	-0-	10,600
John H. Spurgin, II	20,000	-0-	8,400

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- (2) Includes 550,966 shares owned by the RDKB Rawson LP, 480,402 shares owned by the R&D Rawson LP, 350 shares owned by Dawn M. Rawson (spouse), 50 shares owned by Kimberly Rawson (daughter) and 50 shares owned by Barbie Rawson (daughter). Mr. Rawson shares voting and investment power with respect to 450 shares owned by his wife and daughters.
- (3) Includes 1,500,000 shares owned by Our Ship Limited Partnership, Ltd., 681,870 shares owned by the Sarvadi Children's Partnership, Ltd., 56,467 shares owned by Paul J. Sarvadi and Vicki D. Sarvadi, JT TEN and 19,644 shares owned by six education trusts established for the benefit of the children of Paul J. Sarvadi. Mr. Sarvadi shares voting and investment power over all such shares with his wife, Vicki D. Sarvadi.
- (4) Includes 4,390 shares owned by A. Steve Arizpe and Charissa Arizpe (spouse). Mr. Arizpe shares voting and investment power over all such shares with his wife.
- (5) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 3, 2006. EARNEST Partners, L.L.C.'s address is 75 Fourteenth Street, Suite 2300, Atlanta, Georgia 30309. EARNEST Partners, L.L.C. has sole voting power with respect to 1,610,352 shares, shared voting power with respect to 1,522,339 shares and sole dispositive power with respect to 4,422,891 shares.
- (6) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006. AXA Financial, Inc.'s address is 1290 Avenue of the Americas, New York, New York 10104.
- (7) Based on a Schedule 13G filed with the Securities and Exchange Commission on January 31, 2006. Goldman Sachs Asset Management, L.P.'s address is 32 Old Slip, New York, New York 10005. Goldman Sachs Asset Management, L.P. has sole voting power with respect to 1,909,312 shares, shared voting power with respect to 0 shares and sole dispositive power with respect to 2,553,252 shares.

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**PROPOSAL NUMBER 1:  
ELECTION OF DIRECTORS**

**General**

The Company's Certificate of Incorporation and Bylaws provide that the number of directors on the Board shall be fixed from time to time by the Board of Directors but shall not be less than three nor more than 15 persons. The number of members constituting the Board of Directors is currently fixed at eight.

In accordance with the Certificate of Incorporation of the Company, the members of the Board of Directors are divided into three classes and are elected for a term of office expiring at the third succeeding annual stockholders meeting following their election to office, or until a successor is duly elected and qualified. The Certificate of Incorporation also provides that such classes shall be as nearly equal in number as possible. The terms of office of the Class I, Class II and Class III directors expire at the Annual Meeting of Stockholders in 2008, 2006 and 2007, respectively.

The term of office of each of the current Class II directors expires at the time of the 2006 Annual Meeting of Stockholders, or as soon thereafter as their successors are elected and qualified. Messrs. Sarvadi and Young have been nominated to serve an additional three-year term as Class II directors. Both nominees have consented to be named in this proxy statement and to serve as a director if elected.

It is the intention of the person or persons named in the accompanying proxy card to vote for the election of both nominees named below unless a stockholder has withheld such authority. The affirmative vote of a plurality of the votes cast by holders of the Common Stock present in person or by proxy at the 2006 Annual Meeting of Stockholders is required for election of the nominees.

If, at the time of or prior to the 2006 Annual Meeting of Stockholders, either of the nominees should be unable or decline to serve, the discretionary authority provided in the proxy may be used to vote for a substitute or substitutes designated by the Board of Directors. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required. No proxy will be voted for a greater number of persons than the number of nominees named herein.

**Nominees Class II Directors (For Terms Expiring at the 2009 Annual Meeting)**

**Paul J. Sarvadi.** Mr. Sarvadi, age 49, Chairman of the Board and Chief Executive Officer and co-founder of the Company and its subsidiaries, is a Class II director and has been a director and Chairman of the Board since the Company's inception in 1986. He has also served as the Chief Executive Officer of the Company since 1989. He also served as President of the Company from 1989 until August 21, 2003. Prior to that, he served as Vice President and Treasurer of the Company from its inception in 1986 until April 1987, and then as Vice President from April 1987 until 1989. He attended Rice University and the University of Houston prior to starting and operating several small companies. Mr. Sarvadi has served as President of NAPEO and was a member of its Board of Directors for five years. He also served as President of the Texas Chapter of the NAPEO for three of the first four years of its existence. Mr. Sarvadi serves on the Board of Trustees of the DePelchin Children's Center in Houston. In 1995, Mr. Sarvadi was selected as Houston's Ernst & Young Entrepreneur of the Year for service industries and in 2001, he was selected as the 2001 National Ernst & Young Entrepreneur of the Year for service industries. In 2004, he received the Conn Family Distinguished New Venture Leader Award from Mays Business School at Texas A&M University.

**Austin P. Young.** Mr. Young, age 65, joined the Company as a Class II director in January 2003. Mr. Young served as Senior Vice President, Chief Financial Officer and Treasurer of CellStar Corporation from 1999 to December 2001 when he retired. From 1996 to 1999, he served as Executive Vice President Finance and Administration of Metamor Worldwide, Inc. Mr. Young also held the position of Senior Vice President and Chief Financial Officer of American General Corporation for over eight years and was a partner in the Houston and New York offices of KPMG before joining American General. Mr. Young currently serves as a Director and Chairman of the Audit Committees of Tower Group, Inc., Amerisafe, Inc., and Houston Zoo, Inc. He is a member of the Houston and State Chapters of the Texas Society of CPAs, the American Institute of CPAs, and the Financial Executives Institute. He holds an accounting degree from the University of Texas.

**Table of Contents****THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION OF EACH OF THE ABOVE-NAMED NOMINEES, AND PROXIES EXECUTED AND RETURNED WILL BE SO VOTED UNLESS CONTRARY INSTRUCTIONS ARE INDICATED THEREON.****Directors Remaining in Office**

**Michael W. Brown.** Mr. Brown, age 60, joined the Company as a Class I director in November 1997. Mr. Brown is the past Chairman of the Nasdaq Stock Market Board of Directors and a past governor of the National Association of Securities Dealers. Mr. Brown joined Microsoft Corporation in 1989 as its Treasurer and became its Chief Financial Officer in 1993, in which capacity he served until his retirement in July 1997. Prior to joining Microsoft, Mr. Brown spent 18 years with Deloitte & Touche LLP. Mr. Brown is also a director of EMC Corporation, 360networks, FatKat, Inc., Pipeline Financial Group, Inc., DayJet Corporation, Double LLC, and West Sound Management, LLC, and is a member of the Thomas Weisel Partners Advisory Board, the University of Washington Business School Advisory Board and the Particle Economics Research Institute. Mr. Brown holds a Bachelor of Science in Economics from the University of Washington in Seattle.

**Jack M. Fields, Jr.** Mr. Fields, age 54, joined the Company as a Class III director in January 1997 following his retirement from the United States House of Representatives, where he served for 16 years. During 1995 and 1996, Mr. Fields served as Chairman of the House Telecommunications and Finance Subcommittee, which has jurisdiction and oversight of the Federal Communications Commission and the Securities and Exchange Commission. Mr. Fields has been Chief Executive Officer of the Twenty-First Century Group in Washington, D.C. since January 1997. Mr. Fields also serves on the Board of Directors for AIM Mutual Funds and the Discovery Channel Global Education Fund. Mr. Fields earned a Bachelor of Arts in 1974 from Baylor University, and graduated from Baylor Law School in 1977.

**Eli Jones.** Dr. Jones, age 44, joined the Company as a Class I director in April 2004. Dr. Jones has been an Associate Professor of Marketing at the University of Houston since 2002 and was an Assistant Professor at the University of Houston from 1997 until 2002. He taught at Texas A&M University for several years before joining the faculty of the University of Houston. He currently serves as the Executive Director of the Program for Excellence in Selling and the Sales Excellence Institute at the University of Houston. Dr. Jones also serves on the Board of Directors of Dovarri, a CRM company based in Houston, and on the editorial review boards of the Journal of Personal Selling and Sales Management and Industrial Marketing Management. He has conducted research and published articles on sales and sales management topics in major journals and is the co-author of a sales textbook, *Selling ASAP*, and *Strategic Sales Leadership*, a professional book. Dr. Jones is also an ad hoc reviewer for the *Journal of the Academy of Marketing Science*, *Journal of Business Research*, American Marketing Association, and the National Conference in Sales Management. Before becoming a professor, Dr. Jones worked in sales and sales management for three Fortune 100 companies: Quaker Oats, Nabisco, and Frito-Lay. He received his Bachelor of Science degree in Journalism in 1982, his MBA in 1986, and his Ph.D. in 1997 from Texas A&M University.

**Paul S. Lattanzio.** Mr. Lattanzio, age 42, has been a Class III director of the Company since 1995. Mr. Lattanzio joined Bear Stearns, Inc. in July 2003 as a Senior Managing Director and head of Bear Growth Capital Partners, a private equity group. He previously served as a Managing Director for TD Capital Communications Partners (f/k/a Toronto Dominion Capital), a venture capital investment firm, from July 1999 until July 2002. From February 1998 to March 1999, he was a co-founder and Senior Managing Director of NMS Capital Management, LLC, a \$600 million private equity fund affiliated with NationsBanc Montgomery Securities. Prior to NMS Capital, Mr. Lattanzio served in several positions with various affiliates of Bankers Trust New York Corporation for over 13 years, most recently as a Managing Director of BT Capital Partners, Inc. for more than five years. Mr. Lattanzio has experience in a variety of investment banking disciplines, including mergers and acquisitions, private placements and restructuring. Mr. Lattanzio also serves on the Board of Directors of Harlem Furniture, LLC, Avid Health, Inc., New Chapter, Inc. and Dairyland Corp. Mr. Lattanzio received his Bachelor of Science in Economics with honors from the University of Pennsylvania's Wharton School of Business in 1984.

**Gregory E. Petsch.** Mr. Petsch, age 55, joined the Company as a Class I director in October 2002. He retired from Compaq Computer Corporation in 1999 where he had held various positions since 1983, most recently as Senior Vice President of Worldwide Manufacturing and Quality since 1991. Prior to joining Compaq, he worked for 10 years for

Texas Instruments. In 1992, Mr. Petsch was voted Manufacturing Executive of the Year by *Upside* Magazine, and in 1993-1995 he was nominated Who's Who of Global Business Leaders. He is founder and President of Godsmoneyman Ministries and a board member of Culture Shapers. He earned a Bachelor of Business Technology degree from the University of Houston in 1978.



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**Richard G. Rawson.** Mr. Rawson, age 57, President of the Company and its subsidiaries, is a Class III director and has been a director of the Company since 1989. He has been President since August 2003. Before being elected President, he served as Executive Vice President of Administration, Chief Financial Officer and Treasurer of the Company from February 1997 until August 2003. Prior to that, he served as Senior Vice President, Chief Financial Officer and Treasurer of the Company since 1989. Prior to joining the Company in 1989, Mr. Rawson served as a Senior Financial Officer and Controller for several companies in the manufacturing and seismic data processing industries. Mr. Rawson previously served the National Association of Professional Employer Organizations (NAPEO) as President (1999-2000), First Vice President, Second Vice President and Treasurer. In addition, he previously served as Chairman of the Accounting Practices Committee of NAPEO for five years. Mr. Rawson has a Bachelor of Business Administration in finance from the University of Houston.

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**CORPORATE GOVERNANCE MATTERS**

**Determinations of Director Independence**

Under rules of the New York Stock Exchange, the Company must have a majority of independent directors. No board member qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). In evaluating each director's independence, the Board of Directors considered all relevant facts and circumstances and relationships and transactions between each director, her or his family members or any business, charity or other entity in which the director has an interest on the one hand, and the Company, its affiliates, or the Company's senior management on the other. As a result of this review, the Board of Directors affirmatively determined that all of the Company's directors are independent from the Company and its management with the exception of Messrs. Sarvadi and Rawson, both of whom are members of the senior management of the Company.

The Board of Directors has considered what types of disclosure should be made relating to the process of determining director independence. To assist the Board in making disclosures regarding its determinations of independence, the Board has adopted categorical standards as permitted under the listing standards of the New York Stock Exchange. These categorical standards deal only with what types of relationships need to be disclosed and not whether a particular director is independent. The Board considers all relevant facts and circumstances in determining whether a director is independent. However, the relationships satisfying the categorical standards are not required to be disclosed or separately discussed in our proxy statement. A relationship satisfies the categorical standards adopted by the board if it:

is not a relationship that would preclude a determination of independence under Section 303A.02(b) of the New York Stock Exchange Listed Company Manual;

consists of charitable contributions by Administaff to an organization where a director is an executive officer and does not exceed the greater of \$1 million or 2% of the organization's gross revenue in any of the last three years; and

is not required to be, and it is not otherwise, disclosed in Administaff's annual proxy statement.

Mr. Fields owns two companies that are clients of the Company. In 2005, Twenty-First Century Group, which is a Washington, D.C. based lobbying firm owned by Mr. Fields, paid comprehensive service fees of \$1,299,286 (\$108,434 net of payroll costs) to the Company, and Dos Angeles, L.P., a cattle and hunting property owned by Mr. Fields, paid comprehensive service fees of \$71,040 (\$26,140 net of payroll costs) to the Company. The Board of Directors has determined that these relationships are not material. In making this determination, the Board considered the facts that: (i) the two companies pay comprehensive service fees on the same basis as all other Company clients, with no discounts; and (ii) payments net of payroll costs made by each company were less than 2% of such company's revenues and less than 0.1% of Administaff's revenues in each of the last three fiscal years.

You can access the Company's Corporate Governance Guidelines in their entirety on the Company's website at [www.administaff.com](http://www.administaff.com) under *Corporate Governance* in the *Company Information* section.

**Committees of the Board of Directors**

The Board of Directors has appointed three committees: the Finance, Risk Management and Audit Committee; the Compensation Committee; and the Nominating and Corporate Governance Committee.

The members of the Finance, Risk Management and Audit Committee are Mr. Young, who serves as Chairperson, Mr. Lattanzio and Mr. Brown. All three members are independent under the standards of The New York Stock Exchange and Securities and Exchange Commission Regulations. In addition, the Board of Directors has determined that Mr. Young is an audit committee financial expert as such term is defined in Item 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission. The Finance, Risk Management and Audit Committee assists the Board in fulfilling its responsibility to oversee the financial affairs, risk management, accounting and financial reporting processes and audits of financial statements of the Company by reviewing and monitoring: (i) the financial affairs of the Company; (ii) the integrity of the Company's financial statements and internal controls; (iii) the

Company's compliance with legal and regulatory requirements; (iv) the independent auditor's qualifications and independence; (v) the performance of the personnel responsible for the

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Company's internal audit function and the independent auditors; and (vi) the Company's policies and procedures with respect to risk management, as well as other matters that may come before it as directed by the Board of Directors.

The members of the Compensation Committee are Mr. Fields, who serves as Chairperson, Dr. Jones and Mr. Petsch. All three members are independent under the standards of The New York Stock Exchange. The Compensation Committee: (i) oversees and administers the Company's compensation policies, plans and practices; and (ii) prepares the annual report required by the rules of the Securities and Exchange Commission on executive compensation for inclusion in the Company's annual proxy statement. To carry out these purposes, the Compensation Committee evaluates the performance of and determines the compensation for senior management, administers the Company's compensation programs, and performs such other duties as may from time to time be directed by the Board of Directors.

The members of the Nominating and Corporate Governance Committee are all of the outside directors: Mr. Petsch, who serves as Chairperson; Mr. Brown; Mr. Fields; Dr. Jones; Mr. Lattanzio; and Mr. Young. All members of the Nominating and Corporate Governance Committee are independent under the standards of The New York Stock Exchange. The Nominating and Corporate Governance Committee: (i) identifies individuals qualified to become Board members, consistent with the criteria for selection approved by the Board; (ii) recommends to the Board a slate of director nominees to be elected by the stockholders at the next annual meeting of stockholders and, when appropriate, director appointees to take office between annual meetings; (iii) develops and recommends to the Board a set of corporate governance guidelines for the Company; and, (iv) oversees the evaluation of the Board and management.

The charters for each of the three committees, which have been adopted by the Board of Directors, contain a detailed description of the respective committee's duties and responsibilities and are available under *Corporate Governance* in the *Company Information* section on the Company's website at [www.administaff.com](http://www.administaff.com). The Finance, Risk Management and Audit Committee charter is also attached as Appendix A to this proxy statement.

**Selection of Nominees for the Board of Directors***Identifying Candidates*

The Nominating and Corporate Governance Committee solicits ideas for potential Board candidates from a number of sources including members of the Board of Directors, executive officers of the Company, individuals personally known to the members of the Board of Directors, and research. The Nominating and Corporate Governance Committee also has sole authority to select and compensate a third-party executive search firm to help identify candidates, if it deems advisable. In addition, the Nominating and Corporate Governance Committee will consider candidates for the Board submitted by stockholders. Any such submissions should include the candidate's name and qualifications for Board membership and should be directed to the Corporate Secretary of Administaff at 19001 Crescent Springs Drive, Kingwood, Texas 77339. Although the Nominating and Corporate Governance Committee does not require the stockholder to submit any particular information regarding the qualifications of the stockholder's candidate, the level of consideration that the Nominating and Corporate Governance Committee will give to the stockholder's candidate will be commensurate with the quality and quantity of information about the candidate that the nominating stockholder makes available to the Committee. The Nominating and Corporate Governance Committee will consider all candidates identified through the processes described above, and will evaluate each of them on the same basis.

In addition, the Bylaws of the Company permit stockholders to nominate directors for election at an annual stockholders meeting whether or not such nominee is submitted to and evaluated by the Nominating and Corporate Governance Committee. To nominate a director using this process, the stockholder must follow the procedures described under *Additional Information - Advance Notice Required for Stockholder Nominations and Proposals* below.

*Evaluating Candidates*

Each candidate must meet certain minimum qualifications, including:

the ability to represent the interests of all stockholders of the Company and not just one particular constituency;

independence of thought and judgment;



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the ability to dedicate sufficient time, energy and attention to the performance of her or his duties, taking into consideration the prospective nominee's service on other public company boards; and

the skills and expertise of the prospective nominee are complementary to the existing Board members' skills; in this regard, the Board of Directors will consider the Board's need for operational, sales, management, financial, governmental or other relevant expertise.

In addition, the Nominating and Corporate Governance Committee considers other qualities that it may deem to be desirable from time to time, such as the extent to which the prospective nominee contributes to the diversity of the Board of Directors with diversity being construed broadly to include a variety of perspectives, opinions, experiences and backgrounds. The Nominating and Corporate Governance Committee may also consider the ability of the prospective nominee to work with the then-existing interpersonal dynamics of the Board of Directors and her or his ability to contribute to the collaborative culture among Board members.

Based on this initial evaluation, the Chairman of the Nominating and Corporate Governance Committee will determine whether to interview the nominee, and if warranted, will recommend that one or more members of the Committee, other members of the Board and senior management, as appropriate, interview the nominee in person or by telephone. After completing this evaluation and interview process, the Committee makes a recommendation to the full Board of Directors as to the persons who should be nominated by the Board of Directors, and the Board of Directors determines the nominees after considering the recommendation of the Nominating and Corporate Governance Committee.

### **Information Regarding Meetings**

During 2005, the Finance, Risk Management and Audit Committee had 11 meetings, the Compensation Committee had six meetings, the Nominating and Corporate Governance Committee had one meeting, and the Board of Directors had seven meetings. All of the members of the Board participated in more than 75% of the meetings of the Board and Committees of which they were members during the fiscal year ended December 31, 2005 except that Mr. Brown participated in approximately 30% of the meetings of the Board and the Finance, Risk Management and Audit Committee.

The Company expects its Board members to attend the Annual Meeting of the Stockholders. Last year six of the Company's eight directors attended the Annual Meeting of the Stockholders.

### **Executive Sessions of the Board of Directors and the Presiding Director**

The Company's non-management directors hold executive sessions at which the Company's management is not in attendance at each regularly scheduled Board meeting. The Chairperson of the Nominating and Corporate Governance Committee, currently Mr. Petsch, serves as presiding director at the executive sessions. In the absence of the Chairperson, a majority of the members present at the executive session will appoint a member to preside at the meeting.

### **Code of Business Conduct and Ethics**

The Board of Directors has adopted a Code of Business Conduct and Ethics, which meets the requirements of Rule 303A.10 of the New York Stock Exchange Listed Company Manual and Item 406 of Regulation S-K. You can access the Company's Code of Business Conduct and Ethics on the Company's website at [www.administaff.com](http://www.administaff.com) under *Corporate Governance* in the *Company Information* section. Any stockholder who so requests may obtain a printed copy of the Code of Business Conduct and Ethics by contacting Ruth Holub, Investor Relations Specialist, Administaff, Inc., 19001 Crescent Springs Drive, Kingwood, Texas 77339. Changes in and waivers to the Code of Business Conduct and Ethics for the Company's directors, executive officers and certain senior financial officers will be posted on the Company's Internet website within five business days and maintained for at least 12 months.

### **Stockholder Communications**

Stockholders and other interested parties may communicate directly with the entire Board of Directors or the non-management directors as a group by sending an email to [directors@administaff.com](mailto:directors@administaff.com). In the subject line of the email, please specify whether the communication is addressed to the entire Board of Directors or to the non-management directors and the message will be directly routed to the named group without any screening.



**Table of Contents****COMPENSATION****Director Compensation**

Directors who are employees of the Company receive no additional compensation for serving on the Board of Directors. Non-employee directors of the Company are compensated as shown in the table below.

	<b>Board</b>	<b>Compensation Committee</b>	<b>Finance, Risk Management and Audit Committee</b>	<b>Nominating and Corporate Governance Committee</b>
<b>Annual retainers</b>	\$ 30,000	\$ 2,000	\$ 3,000	None
<b>Annual Committee Chair Fees</b>	N/A	\$ 3,000	\$ 6,000	\$ 3,000
<b>Meeting Fees</b>	\$2,000 in person, \$1,000 telephonically	\$750 in person, \$325 telephonically	\$1,500 in person, \$750 telephonically <sup>(1)</sup>	N/A

(1) These fees are also paid to the Chairman for meetings attended with the Company's management or auditors between regular meetings.

Each outside director is also reimbursed for reasonable expenses incurred in serving as a director. All compensation can be taken in cash or Common Stock, at the director's option. In addition, pursuant to the Company's 2001 Incentive Plan, each non-employee director automatically receives, on the date such person first becomes a director, a grant of nonqualified options to purchase 7,500 shares of Common Stock, which have a term of 10 years and vest in increments of one-third of the total grant on the first, second and third anniversaries of the grant. In addition, following each annual meeting of the Company's stockholders, each non-employee director who was not initially elected at such meeting, currently receives an annual grant of nonqualified options to purchase an additional 5,000 shares of Common Stock, all of which have a term of 10 years and are immediately vested and exercisable on the date of grant. The exercise price of all such options is the closing sale price on the New York Stock Exchange of the Common Stock on the date the options are granted.

If Proposal 2 is adopted, the Plan will be amended and restated to provide that each person who is initially appointed or elected as a director of the Company shall receive a grant of shares of restricted Common Stock on the date of election or appointment with an aggregate fair market value, determined the date prior to the date of grant, of \$75,000, rounded up to the next higher whole share amount in the case of a fractional share amount, and such restricted Common Stock shall vest as to one-third of the shares on each anniversary of its grant date, in lieu of an option to purchase 7,500 shares of Common Stock at an exercise price per share equal to the fair market value of the Common Stock on the date of grant which also vested as to one-third of the shares on each anniversary of its grant date. In addition, the Plan will be amended and restated to provide that each non-employee director shall receive on



the date of each annual meeting of the Company's stockholders (unless first elected or appointed at such meeting), in lieu of an immediately vested and exercisable option to purchase 5,000 shares of Common Stock, a grant of shares of Common Stock with an aggregate fair market value, determined the date prior to the date of grant, of \$50,000, or each non-employee director may elect to receive an immediately vested and exercisable option to purchase a number of shares of Common Stock which has an aggregate value, determined the date prior to the date of grant, of \$50,000, calculated using the valuation methodology most recently utilized by the Company for purposes of financial statement reporting. Either award will be rounded up to the next higher whole share amount in the case of a fractional share amount.

**Table of Contents****Executive Compensation**

The following table summarizes certain information regarding compensation earned by the Company's Chief Executive Officer and each of the four other most highly compensated executive officers of the Company (collectively the Named Executive Officers) for services rendered in all capacities to the Company during 2005.

**SUMMARY COMPENSATION TABLE**

Name And Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		
		Salary	Bonus	Other Annual Compensation <sup>(1)</sup>	Restricted Stock Awards <sup>(2)</sup>	Underlying Securities Options	All Other Compensation <sup>(3)</sup>
Paul J. Sarvadi Chairman of the Board and Chief Executive Officer	2005	\$555,692	\$830,618	\$ 51,486	\$594,400		\$ 18,982
	2004	\$513,269	\$283,016	\$ 50,034		89,000	\$ 15,478
	2003	\$486,501	\$392,000			69,167	\$ 15,020
Richard G. Rawson President	2005	\$345,661	\$409,387		\$295,714	69,167	\$ 18,937
	2004	\$318,982	\$175,215			64,500	\$ 13,566
	2003	\$310,267	\$209,747			33,537	\$ 12,422
A. Steve Arizpe Executive Vice President of Client Services and Chief Operating Officer	2005	\$344,021	\$408,891	\$ 61,111	\$295,714		\$ 12,600
	2004	\$312,462	\$171,104	\$ 49,074		64,200	\$ 12,300
	2003	\$295,421	\$175,430			34,619	\$ 12,000
Jay E. Mincks Executive Vice President of Sales and Marketing	2005	\$278,078	\$314,019		\$236,274		\$ 12,600
	2004	\$270,101	\$110,988	\$ 37,112		55,100	\$ 12,300
	2003	\$262,721	\$151,556			28,156	\$ 12,000
John H. Spurgin, II Senior Vice President of Legal, General Counsel and Secretary	2005	\$249,586	\$255,559		\$187,236		\$ 10,911
	2004	\$237,687	\$116,330			47,300	\$ 12,300
	2003	\$229,050	\$133,721			20,565	\$ 12,000

(1) Other Annual Compensation includes the incremental cost of providing perquisites if the aggregate amounts exceed the lesser of \$50,000 or 10% of the total annual salary and bonus

reported for each executive officer.

Individual items that exceed 25% of the amounts shown in the table for fiscal 2005 are as follows:

Calculated incremental cost to the Company for Mr. Sarvadi's personal use of Company aircraft in the amount of \$23,013. The amounts shown in the table for Mr. Sarvadi and Mr. Arizpe include the incremental costs of Company leased vehicles of \$13,434 and \$15,830, respectively. The amount in the table for fiscal 2005 for Mr. Arizpe also includes country club membership fees and dues in the amount of \$31,597.

Individual items that exceed 25% of the amounts shown in the table for fiscal 2004 are as follows:

Calculated incremental cost to the Company

for  
Mr. Sarvadi s,  
Mr. Arizpe s and  
Mr. Minck s  
personal use of  
Company leased  
vehicles of  
\$13,434,  
\$15,830 and  
\$14,810,  
respectively.  
The amounts  
shown in the  
table for  
Mr. Sarvadi,  
Mr. Arizpe, and  
Mr. Mincks also  
include country  
club  
membership  
fees and dues in  
the amount of  
\$30,100,  
\$26,744, and  
\$15,802,  
respectively.

- (2) The values reported in the Summary Compensation Table for restricted stock awards in 2005 were calculated by multiplying the number of shares awarded by \$14.86, the closing price per share of Administrstaff, Inc. Common Stock on the New York Stock Exchange on February 1, 2005, the date of grant. On that date, the Named Executive

Officers were granted restricted shares of Administraff, Inc. Common Stock in the following amounts:

Mr. Sarvadi  
40,000 shares;  
Mr. Rawson  
19,900 shares;  
Mr. Arizpe  
19,900 shares;  
Mr. Mincks  
15,900 shares;  
and Mr. Spurgin  
12,600 shares.

Common Stock dividends declared by the Board of Directors are paid on all restricted stock awards.

The total number of restricted shares of Administraff, Inc. Common Stock held by each of the Named Executive Officers and their respective values at December 31, 2005, based on the closing price per share of Administraff, Inc. Common Stock on the New York Stock Exchange on that date of \$42.05 were:  
Mr. Sarvadi

40,000 shares  
with an  
aggregate value  
of \$1,682,000;  
Mr. Rawson  
19,900 shares  
with an  
aggregate value  
of \$836,795;  
Mr. Arizpe  
19,900 shares  
with an  
aggregate value  
of \$836,795;  
Mr. Mincks  
15,900 shares  
with an  
aggregate value  
of \$668,595;  
and Mr. Spurgin  
12,600 shares  
with an  
aggregate value  
of \$529,830.

- (3) Consists of the Company's employer matching contributions to the Administraff 401(k) Plan and, for Mr. Sarvadi and Mr. Rawson, includes payments with respect to life insurance policies benefiting the named executive, which for 2005 were \$6,382 and \$6,337, respectively.

**Table of Contents****AGGREGATED OPTIONS/SAR EXERCISES IN LAST FISCAL YEAR AND  
FY-END OPTION/SAR VALUES**

<b>Name</b>	<b>Shares Acquired On Exercise</b>	<b>Value Realized<sup>(1)</sup></b>	<b>Number of Securities Underlying Unexercised Options/SARs At Fiscal Year-End</b>	<b>Value of Unexercised In-The-Money Options/SARs At Fiscal Year-End</b>
			<b>Exercisable/ Unexercisable <sup>(2)</sup></b>	<b>Exercisable/ Unexercisable <sup>(2)</sup></b>
Paul J. Sarvadi			428,167/	\$10,809,910/\$
Richard G. Rawson			308,037/	\$8,118,546/\$
A. Steve Arizpe	55,131	\$1,231,843	301,800/	\$7,497,910/\$
Jay E. Mincks	39,703	\$1,086,040 &nbsp;		