ADMINISTAFF INC \DE\
Form DEF 14A
March 15, 2007

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| OMB APPROVAL | |
|---|---|
| OMB Number: | 3235-0059 |
| Expires: | January 31, 2008 |
| Estimated average burden hours per response | 14. |

**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 þ
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))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

**ADMINISTAFF, INC**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

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):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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**Paul J. Sarvadi**
**Chairman of the Board**
**and Chief Executive Officer**
March 28, 2007
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 2, 2007 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 2006 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 2nd.
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 2, 2007**
**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 2, 2007 at 4:00 p.m. (Central Daylight Savings Time), for the following purposes:

1. To elect three Class III directors to serve until the 2010 Annual Meeting of Stockholders or until their successors have been elected and qualified.

2. To ratify the appointment of Ernst & Young LLP as the Company s independent public accountants for the year ending December 31, 2007.

3. 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 5, 2007 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 28, 2007
Kingwood, Texas

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**ADMINISTAFF, INC.**
**A Delaware Corporation**
**19001 Crescent Springs Drive**
**Kingwood, Texas 77339-3802**
**PROXY STATEMENT**
**FOR THE**
**ANNUAL MEETING OF STOCKHOLDERS OF**
**ADMINISTAFF, INC.**
**TO BE HELD ON WEDNESDAY, MAY 2, 2007**

**Solicitation**

The accompanying proxy is solicited by the Board of Directors of Administaff, Inc., a Delaware corporation (the Company or Administaff ), for use at the 2007 Annual Meeting of Stockholders to be held on May 2, 2007, 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.

**Voting Information**

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) submitting a proxy 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 Company pays the expense of preparing, printing and mailing proxy materials to our stockholders. Our 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. We will also reimburse brokerage houses and other nominees for their reasonable expenses in forwarding proxy materials to beneficial owners of our Common Stock.

The approximate date on which this proxy statement and the accompanying proxy card will first be sent to stockholders is March 28, 2007.

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At the close of business on March 5, 2007, the record date for the determination of stockholders of the Company entitled to receive notice of, and to vote at, the 2007 Annual Meeting of Stockholders or any reconvened meeting after an adjournment thereof, 27,914,372 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 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. Directors of the Company shall be elected by a plurality of the votes cast. 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, and thus will not affect the outcome of the voting on a particular proposal.

## SECURITY OWNERSHIP

The table below sets forth, as of March 5, 2007, certain information with respect to the shares of Common Stock beneficially owned by: (i) each person known by the Company to beneficially own 5% 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 in the Summary Compensation Table on page 18 of this proxy statement; 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 | 68,653 | * |
| Jack M. Fields, Jr. | 1,846 | * |
| Eli Jones | 2,716 | * |
| Paul S. Lattanzio | 55,290 | * |
| Gregory E. Petsch | 17,497 | * |
| Richard G. Rawson | 1,382,939(2) | 4.9% |
| Paul J. Sarvadi | 2,329,954(3) | 8.3% |
| Austin P. Young | 23,559 | * |
| A. Steve Arizpe | 340,352(4) | 1.2% |
| Jay E. Mincks | 239,026 | * |
| Douglas S. Sharp | 100,179 | * |
| AXA Financial, Inc. | 1,487,960(5) | 5.3% |
| Columbia Wanger Asset Management, L.P. | 2,264,000(6) | 8.1% |
| EARNEST Partners, L.L.C | 2,479,199(7) | 8.9% |
| Executive Officers and Directors as a group (12 persons) | 4,616,211 | 15.9% |

* 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 5, 2007 or within 60 days after March 5, 2007 and excludes options not exercisable within 60 days after March 5, 2007 (currently there are no unvested stock options). 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.

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| Name of Beneficial Owner | Options Exercisable | Options Not Exercisable | Unvested Restricted Stock |
|---|---|---|---|
| Michael W. Brown | 52,500 | | |
| Jack M. Fields, Jr. | | | |
| Eli Jones | | | |
| Paul S. Lattanzio | 15,000 | | |
| Gregory E. Petsch | 15,000 | | |
| Austin P. Young | 22,500 | | |
| Richard G. Rawson | 308,037 | | 29,634 |
| Paul J. Sarvadi | 194,093 | | 36,334 |
| A. Steve Arizpe | 252,946 | | 49,634 |
| Jay E. Mincks | 183,126 | | 48,300 |
| Douglas S. Sharp | 61,001 | | 33,800 |

(2) Includes 492,166 shares owned by the RDKB Rawson LP, 455,202 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 1,394,273 shares owned by Our Ship Limited Partnership, Ltd., 641,506 shares owned by the Sarvadi Children s Partnership, Ltd., 34,340 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 23,139 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 14, 2007. AXA Financial, Inc. s address is 1290 Avenue of the Americas, New York, New York 10104.

(6) Based on a Schedule 13G filed with the Securities and Exchange Commission on January 11, 2007. Columbia Wanger Asset Management, L.P. has sole voting power with respect to 2,064,000 shares, shared voting power with respect to 200,000 shares, and sole dispositive power with respect to 2,264,000 shares. The address of Columbia Wanger Asset Management L.P. is 227 West Monroe Street, Suite 3000, Chicago, IL 60606.

(7) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 12, 2007. EARNEST Partners, L.L.C. has sole voting power with respect to 786,292 shares, shared voting power with respect to 781,355 shares, and sole dispositive power with respect to 2,479,199 shares. The address of EARNEST Partners LLC is 1180 Peachtree Street NE, Suite 2300, Atlanta, GA 30309.

## 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, 2009 and 2007, respectively.

The term of office of each of the current Class III directors expires at the time of the 2007 Annual Meeting of Stockholders, or as soon thereafter as their successors are elected and qualified. Messrs. Fields, Lattanzio and Rawson have been nominated to serve an additional three-year term as Class III directors. All 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 all 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 2007 Annual Meeting of Stockholders is required for election of the nominees.

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If, at the time of or prior to the 2007 Annual Meeting of Stockholders, any 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 III Directors (For Terms Expiring at the 2010 Annual Meeting)**

***Jack M. Fields, Jr***. Mr. Fields, age 55, 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. Mr. Fields is a member of the Company s Compensation Committee and Nominating and Corporate Governance Committee. 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 Management Group, Inc. 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.

***Paul S. Lattanzio***. Mr. Lattanzio, age 43, has been a Class III director of the Company since 1995. He is a member of the Company s Finance, Risk Management and Audit Committee and Nominating and Corporate Governance Committee. 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., Dairyland Corp., and Everything But Water, LLC. Mr. Lattanzio received his Bachelor of Science in Economics with honors from the University of Pennsylvania s Wharton School of Business in 1984.

***Richard G. Rawson.*** Mr. Rawson, age 58, 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.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE *FOR* ALL THREE NOMINEES LISTED ABOVE.**

**Directors Remaining in Office**

***Michael W. Brown.*** Mr. Brown, age 61, joined the Company as a Class I director in November 1997. He is a member of the Company s Finance, Risk Management and Audit Committee and the Nominating and Corporate Governance Committee. 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, West Sound Management, LLC, and Thomas Weisel Partners and serves on the audit committee of Thomas Weisel Partners. He is a member of 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.

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***Eli Jones.*** Dr. Jones, age 45, joined the Company as a Class I director in April 2004. He is Chairman of the Company s Compensation Committee and a member of the Nominating and Corporate Governance Committee. 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.

***Gregory E. Petsch***. Mr. Petsch, age 56, joined the Company as a Class I director in October 2002. He is Chairman of the Company s Nominating and Corporate Governance Committee and a member of the Compensation Committee. Mr. Petsch 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 Petsch Foundation, Inc. He earned a Bachelor of Business Technology degree from the University of Houston in 1978.

***Paul J. Sarvadi.*** Mr. Sarvadi, age 50, 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 66, joined the Company as a Class II director in January 2003. He is Chairman of the Company s Finance, Risk Management and Audit Committee and a member of the Nominating and Corporate Governance Committee. 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. and Amerisafe, 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.

## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

Administaff has adopted Corporate Governance Guidelines, which include guidelines for, among other things, director responsibilities, qualifications and independence. The Board continually monitors developments in corporate governance practices and regulatory changes and periodically assesses the adequacy of and modifies its Corporate

Governance Guidelines and committee charters as warranted in light of such developments. You can access the Company s Corporate Governance Guidelines in their entirety on the Company s Web site at *www.administaff.com* under *Corporate Governance* in the *Company Information* section. Any stockholder who so requests may obtain a printed copy of the Corporate Governance Guidelines free of charge by contacting Ruth Holub, Investor Relations Specialist, Administaff, Inc., 19001 Crescent Springs Drive, Kingwood, Texas 77339.

On an annual basis, each director and executive officer is obligated to complete a questionnaire that requires disclosure of any transactions with the Company in which the director or executive officer, or any member of his or her immediate family, have a direct or indirect material interest.

**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, stockholder 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, at its meeting held on January 30, 2007, 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.

In the course of the Board s determination regarding the independence of directors other than Messrs. Sarvadi and Rawson, it considered all transactions, relationships and arrangements in which such directors and Administaff were participants. In particular, with respect to each of the most recent three fiscal years, the Board evaluated Administaff s provision of PEO-related services to companies owned by Mr. Fields, and its employment of Dr. Jones s daughter. The Board of Directors has determined that these relationships are not material. In making this determination with respect to Mr. Fields, the Board considered the facts that: (i) the company pays Administaff comprehensive service fees on the same basis as all other clients; and (ii) payments net of payroll costs made by the company were less than 0.1% of Administaff s revenues in each of the last three fiscal years. In making this determination with respect to Dr. Jones, the Board considered the position and salary of Dr. Jones s daughter within the Company.

**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

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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;
- 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.

**Code of Business Conduct and Ethics**

The Board of Directors has adopted a Code of Business Conduct and Ethics (the Code ), governing the conduct of the Company s directors, officers and employees. The Code, which meets the requirements of Rule 303A.10 of the New York Stock Exchange Listed Company Manual and Item 406 of Regulation S-K, is intended to promote honest and ethical conduct, full, fair, accurate, timely and understandable disclosure in the Company s public filings, compliance with laws and the prompt internal reporting of violations of the Code. You can access the Code on the Company s Web site at *www.administaff.com* under *Corporate Governance* in the *Company Information* section. Any stockholder who so requests may obtain a printed copy of the Code free of charge 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 Web site within five business days and maintained for at least 12 months. If you wish to raise a question or concern or report a violation to the Finance, Risk Management and Audit Committee, you should go to www.ethicspoint.com or call the Ethicspoint toll-free hotline at 1-866-384-4277.

**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*. 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.

Alternatively, you may mail your correspondence to the Board in care of the Corporate Secretary, 19001 Crescent Springs Drive, Kingwood, Texas 77339.

Unless any director directs otherwise, communications received (via U.S. mail or email) will be reviewed by the Corporate Secretary who will exercise his discretion not to forward to the Board correspondence that is inappropriate such as business solicitations, frivolous communications and advertising, routine business matters (i.e., business inquiries, complaints, or suggestions), and personal grievances.

## MEETINGS AND COMMITTEES OF THE BOARD

### The Board

Directors are expected to attend all or substantially all Board meetings and meetings of the Committees of the Board on which they serve. Directors are also expected to spend the necessary time to discharge their responsibilities appropriately (including advance review of meeting materials) and to ensure that other existing or future commitments do not materially interfere with their responsibilities as members of the Board. The Board met five times in 2006, which included four regularly scheduled meetings and one unscheduled meeting. 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, 2006. The Board expects its members to attend the Annual Meeting of the Stockholders. Last year seven 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.

### 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 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 Web site at *www.administaff.com*. Any stockholder who so requests may obtain a printed copy of the committee charters free of charge by contacting Ruth Holub, Investor Relations Specialist, Administaff, Inc., 19001 Crescent Springs Drive, Kingwood, Texas 77339.

*Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee met two times in 2006. 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.

*Finance, Risk Management and Audit Committee*

The Finance, Risk Management and Audit Committee met seven times in 2006. The members of this 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 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.

*Compensation Committee*

The Compensation Committee met four times in 2006. The members of the Compensation Committee are Dr. Jones, who serves as Chairperson, Mr. Fields 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; (ii) reviews and discusses with management the Compensation Discussion and Analysis required by Securities Exchange Commission Regulation S-K, Item 402; and (iii) prepares the annual report required by the rules of the Securities and Exchange Commission on executive compensation for inclusion in the Company s annual report or proxy statement for the annual meeting of stockholders. To carry out these purposes, the Compensation Committee: (i) evaluates the performance of and determines the compensation for senior management, taking into consideration recommendations made by the Chief Executive Officer; (ii) administers the Company s compensation programs, and (iii) performs such other duties as may from time to time be directed by the Board of Directors.

The Compensation Committee may form and delegate authority to subcommittees as it deems appropriate. Pursuant to the terms of the Incentive Plan, the Board of Directors or the Compensation Committee may delegate the Compensation Committee s authority under the Incentive Plan to the Chairman of the Board, pursuant to such conditions and limitations as each may establish, except that neither may delegate to any person the authority to make awards, or take other action, under the Incentive Plan with respect to participants who may be subject to Section 16 of the Securities Exchange Act of 1934.

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee is comprised entirely of independent directors.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

**Compensation Program Objectives**

Administaff is committed to attracting, motivating, retaining and encouraging long-term employment of individuals with a demonstrated commitment to integrity and exemplary personal standards of performance. The Administaff culture is based upon the value of and respect for each individual, encouraging personal and professional growth, rewarding outstanding individual and corporate performance, and achieving excellence through a high-energy, fun work environment. We are convinced these elements contribute to the vision of Administaff to be an employer of choice, which increases the value and potential of the Company for clients, employees, stockholders, and the communities where we live and work.

Our compensation policies for executives are based on the same principles that we employ in establishing all of our compensation programs. For executives, our compensation programs are designed to:

- attract and retain key executive officers responsible for the success of the Company, and

- motivate management to achieve both short-term business goals and to enhance long-term stockholder value through our pay for performance philosophy.

To accomplish these goals, Administaff adheres to the compensation strategies discussed below.

**Compensation Strategies**

- We have established and strive to maintain a performance-driven culture that generates Company growth by recognizing and rewarding employees who believe in their own ability to reach and exceed their compensation objectives.

As part of our competitive compensation program, Administaff s base salary system compensates employees based upon job responsibilities, level of experience, individual performance, comparisons to the market, and internal comparisons. As employees progress to higher levels in the Company, an increasing proportion of their compensation is linked to Company performance.

We provide substantial incentive compensation to recognize and reward individual and corporate performance through a variable pay component that is affordable and equitable to both employees and stockholders, and that directly supports our business objectives. Our variable pay component utilizes business performance criteria that encourage the attainment of strategic objectives, with the goal of aligning the interests of the executive officers with those of the stockholders.

We have also created a strong mutuality of interest between executive officers and stockholders through the use of long-term equity incentive compensation opportunities.

We provide a competitive benefits package at the best possible value to the Company that recognizes and encourages work-life balance and fosters a career commitment to Administaff.

**Elements of Compensation**

The annual compensation package for executive officers consists of: (i) an annual base salary payable in cash; (ii) variable cash compensation, which is targeted as a percentage of base pay; (iii) long-term equity incentive compensation; and (iv) special or supplemental benefits, including management perquisites.

Base Salary

A competitive base annual salary is designed to secure and retain talented executive officers. Administaff conducts an annual executive compensation study to ensure executive compensation remains competitive. A more detailed discussion of this study is included below under Determination of Compensation Amounts and Formulas.

Variable Cash Compensation

The Company believes that variable cash compensation is a key element of the total compensation of each executive officer. Such compensation embodies our pay-for-performance philosophy whereby a significant portion of executive compensation is at risk and tied to corporate, departmental, and individual performance.

Long-term Equity Incentive Compensation

Long-term equity incentives align the interests of the executive officers with those of the stockholders. We believe that long-term incentives enhance retention while rewarding executive officers for their service. The objectives of Administaff s long-term equity incentive compensation, which is awarded under the stockholder-approved Administaff, Inc. 2001 Incentive Plan ( Incentive Plan ), are detailed under Determination of Compensation Amounts and Formulas below.

Special or Supplemental Benefits, Including Management Perquisites

Executive compensation also includes a limited number of perquisites and supplemental benefits that enhance the Company s ability to attract and retain talented executive officers in today s market. The Company also believes certain perquisites assist in the operation of business, allowing executive officers more time to focus on business objectives.

Retirement Benefits

We do not provide pension arrangements, post-retirement health coverage, or nonqualified defined contribution or other deferred compensation plans for our directors, executive officers or employees. Our executive officers and employees are eligible to participate in our 401(k) defined contribution plan. We will contribute to each participant a matching contribution equal to 100% of the first 6% of the participant s compensation that has been contributed to the plan, up to the maximum contribution amount allowed under the federal tax rules. All of our executive officers participated in our 401(k) plan during fiscal year 2006 and received matching contributions, which are included under the caption All Other Compensation in the Summary Compensation Table on page 18.

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**Determination of Compensation Amounts and Formulas**

The Company conducts an annual executive compensation study which compares each executive officer s compensation to market data for similar positions as well as considering various internal factors of the Company. Each year, the Compensation Committee determines whether the study is to be performed internally by Administaff s Manager of Compensation or by an outside consulting firm.

Administaff s Manager of Compensation conducted an executive compensation study (the Compensation Study ) to determine competitive market pay for each executive officer of the Company. The Compensation Study was presented to the Compensation Committee in February 2006 for its review in considering salary adjustments for executive officers. The Compensation Study identified and analyzed a peer group of companies (the Compensation Peer Group ) using the most recent public information regarding the total compensation package for each of the top five highest paid executive officers, including base salary, annual incentives, total cash compensation (base salary plus annual incentives), long-term incentives, total pay (total cash plus annualized value of long-term incentives) and perquisites. The Compensation Peer Group, which was selected in 2003 with the assistance of an outside consulting firm, Pearl Meyer & Partners, consisted of 13 publicly-traded companies that provide human resource services and whose median revenues equated to $1.1 billion. The Compensation Peer Group included 10 companies in addition to those included in the peer group for comparing total stockholder return ( TSR Peer Group ). The TSR Peer Group consists of companies that either provide PEO services or whose operations include PEO services. The additional companies included in the Compensation Peer Group are companies that compete with Administaff for executive talent. The Compensation Peer Group and TSR Peer Group are as follows:

| Name of Company | Compensation Peer Group | TSR Peer Group |
|---|---|---|
| Automatic Data Processing, Inc. | X | X |
| CDI Corporation | X | |
| Century Business Services, Inc. | X | |
| Ceridian Corporation | X | |
| Gevity HR, Inc. | X | X |
| Robert Half International, Inc. | X | |
| Kelly Services, Inc. | X | |
| Kforce, Inc. | X | |
| Manpower, Inc. | X | |
| NCO Group, Inc. | X | |
| Paychex, Inc. | X | X |
| Spherion Corporation | X | |
| TeamStaff, Inc. | X | |

In addition to the Compensation Study, the Compensation Committee also reviewed comparisons of perquisites and long-term incentives included in published survey data provided from the Watson Wyatt Survey Report on Nonqualified Benefits and Perquisites Practices and the Clark Consulting CHiPS Survey, respectively.

Internal factors are also an important consideration when determining each executive officer s compensation. These factors include: the executive officer s performance review conducted by the Chief Executive Officer; the executive officer s tenure with the Company; his or her industry experience; his or her ability to influence stockholder value; and the importance of the executive officer s position to the Company in relation to the other executive officer positions within the Company.

Base Salary [1]

The base salary is intended to provide stable annual compensation to attract and retain talented executive officers. Changes in base salary for each executive officer are determined based upon the executive officer s individual contribution to the success of the Company and external market comparisons. For example, in 2006, the

Compensation Study indicated that the salary of our Chief Financial Officer was significantly below market considering his experience within his position. The Chief Financial Officer s base salary, therefore, was increased to reflect the knowledge and expertise he currently contributes to his position. The average annual merit increase for executive officers in 2006 was 9.5%, which is competitive with the average merit increase for the Compensation Peer Group in the most recently ended fiscal year for which data was available.

1 See Salary included in the Summary Compensation Table on page 18 of this proxy statement.

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Variable Compensation [1]

Variable compensation for all executive officers as well as most non-management employees is paid through the Administaff Annual Incentive Plan ( AAIP ), a non-equity incentive plan. The AAIP is intended to link each executive officer s compensation to the Company s performance as well as to his or her individual performance. For 2006, the Compensation Committee set a target for variable compensation that was computed as a percentage of each executive officer s base salary. The AAIP provided a payout scale with significant opportunity for high performance and zero payout for low performance.

The percentage of the target variable compensation paid could range from zero to 150% of target, depending on whether the executive officer met the threshold, target or maximum level of his or her performance goals established in early 2006. If the executive officer reached the threshold level for performance measurements, he or she was paid 50% of the targeted variable compensation. If the executive officer reached the targeted level for performance measurements, he or she was paid 100% of the targeted variable compensation. If the executive officer reached the maximum level for performance measurements, he or she was paid 150% of the targeted variable compensation. The targeted variable compensation as a percentage of base salary for 2006 was set at: 120% for the Chief Executive Officer; 100% for the President, the Chief Operating Officer, and the Executive Vice President of Sales and Marketing; and 80% for the Chief Financial Officer.

For 2006, the targeted variable compensation was based on three performance measurements: corporate, departmental and individual. The Company sets specific metric goals each year for the corporate performance measurement. In 2006, the corporate performance measurement was based on the Company s operating income per worksite employee. For corporate performance, the threshold, target, and maximum would be met if we achieved operating income per worksite employee of $42, $46, and $50, respectively. The corporate performance measurement portion of variable compensation was the same for all employees of the Company. The departmental performance measurements were developed by each department based on various projects to be completed within each department that would have a major impact upon the Company s operations as a whole. Each executive officer s departmental goals are derived from the goals set for his or her department. The individual performance measurements were based on annual performance reviews of the achievement of pre-set, specific individual performance goals and competencies. During each year, the Compensation Committee periodically reviews the progress made towards meeting the corporate and departmental goals. Criteria considered in evaluation of individual performance of executive officers included generating revenue, mobilizing talent, personal and professional development, ability to run the business, servant leadership, and setting the course of the business. Administaff utilizes a talent management software system to track individual goals and rate each employee on predetermined competencies.

The variable compensation for executive officers was weighted more heavily toward the corporate performance and differed among the executive officers depending upon their position. For 2006, the Chief Executive Officer s compensation was weighted 80% on corporate performance and 20% on individual performance. The President, Chief Operating Officer, and Executive Vice President of Sales and Marketing had measurement weightings of 60% corporate, 20% departmental, and 20% individual. The Chief Financial Officer had measurement ratings of 50% corporate, 30% departmental, and 20% individual.

In 2006, the Company s operating income per worksite employee was $51, which exceeded the maximum target level established by the AAIP. As a result, the Compensation Committee awarded the executive officers, along with substantially all other employees, an award amount in excess of the maximum amounts provided by the corporate performance component of the AAIP. The amounts awarded were determined using a pro-rata scale based on the actual operating income per worksite employee earned in 2006.

Long-term Incentive Compensation [2]

Long-term incentive compensation is provided through the Incentive Plan, the objectives of which are: (i) to provide incentives to attract and retain persons with training, experience and ability to serve as employees of the Company; (ii) to promote the interests of the Company by encouraging employees of the Company and its subsidiaries to acquire or increase their equity interest in the Company; (iii) to provide a means whereby employees and outside directors may develop a sense of proprietorship and personal involvement in the development and financial success of the Company; and (iv) to encourage employees and outside directors to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its stockholders. Awards granted under the Incentive Plan have historically been made in the form of stock options or restricted stock. Pursuant to the terms of the Incentive Plan, future awards may include phantom

1 See Bonus and Non-Equity Incentive Plan Compensation included in the Summary Compensation Table on page 18. In addition, see Estimated Possible Payouts Under Non-Equity Incentive Plan Awards in the Grants of Plan-Based Awards Table on page 19.

2 See Stock Awards included in the Summary Compensation Table on page 18. In addition, see All Other Stock Awards included in the Grants of Plan-Based Awards Table on page 19.

shares, performance units, bonus stock or other incentive awards. The Company may periodically grant new options, restricted stock, or other long-term incentives to provide continuing incentive for future performance. The award size and recipients of awards are determined by the degree to which a particular position in the Company has the ability to influence stockholder value. The Company anticipates continuing to utilize restricted stock with a three-year vesting schedule. The awards are valued using the closing price of the Company s stock on the day the awards are approved by the Compensation Committee.

In recent years, the Company has awarded restricted stock rather than options. The Company believes the current accounting treatment of restricted stock more closely reflects the economic value of the award to the employees as compared to that of stock options. The Company requested an increase in the number of shares of Common Stock available for issuance under the Incentive Plan, which was approved by the stockholders in May 2006. Thereafter, the Chief Executive Officer presented his recommendations for awards of restricted stock to the Compensation Committee. The Chief Executive Officer s recommendations for the executive officers awards were based upon the performance of each executive officer and the importance of each executive officer s role in the Company s future business operations. In the past, executive officers who were not meeting expected performance received a reduced award or had the award eliminated entirely. The 2006 recommendations did not include any restricted stock grants to the Chief Executive Officer or the President in order to increase the number of shares awarded to other executive officers so that their incentives would be maximized. The Compensation Committee then determined and approved the awards after considering the Chief Executive Officer s recommendations and revising the amount of the awards as the Compensation Committee deemed necessary.

Under the terms of the Incentive Plan, all conditions and/or restrictions that must be met with respect to vesting or exercisability of an award immediately lapse upon a change in control of the Company as defined under the Incentive Plan.

Special or Supplemental Benefits, Including Management Perquisites [1]

The Company provides a limited number of supplemental benefits and perquisites to assist executive officers in the operation of the Company, as well as to attract and retain key executive officers. These include the following:

Automobile

The Company provides automobiles to executive officers for both business and personal use. The executive officers are taxed for their personal use of the automobile.

Supplemental Executive Disability Income Plan

In 2006, the Company implemented a supplemental executive disability income plan for executive officers and a small group of upper management employees in order to more fairly provide disability benefits to that group. The supplemental executive disability income plan provides replacement of 75% of total cash compensation up to $20,000 per month. The plan recognizes the significant variable pay at the senior levels in the Company and the benefit limitations of the Company s basic long term disability plan, which provides replacement of 60% of base salary only up to $10,000 per month.

Executive Wellness Plan

The Company offers an Executive Wellness Plan to the executive officers to assist them in maintaining their health. The plan pays up to $2,000 each year for wellness services which allow the executive officers an opportunity to have a clear understanding of their current physical condition, risk factors, and ways to improve their health.

Chairman s Trip

An annual Chairman s Trip is held for employees recognized during the year for their outstanding service and for sales representatives meeting a certain sales target. The Company believes executive officers should be part of the trip to recognize these outstanding employees of the Company. Therefore, the Company provides the opportunity for all executive officers and their spouses to attend the Chairman s Trip. The Company also pays the associated income taxes related to the trip on behalf of the employees and the executive officers.

[1] See All Other Compensation included in the

Summary Compensation Table on page 18.

Club Membership

The Company provides and pays for a country club membership for each executive officer. The Company believes club memberships provide an opportunity to build business and client relationships while also promoting a healthy lifestyle for each executive officer.

Aircraft

The Company provides access to the Company-owned aircraft to the Chief Executive Officer, the President, the Chief Operating Officer, and the Executive Vice President, Sales and Marketing for personal use. These individuals are required to reimburse the Company for the incremental cost associated with their personal use of the aircraft. The incremental cost is calculated by multiplying the number of hours of personal use by the average incremental cost per hour.

Personal Life Insurance

The Company provided personal term life insurance policies with a face amount of $500,000 each to the Chief Executive Officer and the President. These policies were issued in July 1990 prior to the Company s initial public offering. They were both cancelled in January 2007.

Post Employment Compensation

Administaff s executive officers are employed at will. Administaff does not have any severance agreements with its executive officers or a formal severance policy. In 2006, no executive officers departed from the Company.

Other Personal Benefits

Periodically, executive officers attend Company-related activities, such as professional sporting events or out-of-town business meetings, in which the Company incurs travel and other event-related expenses. Such events may include the spouses of the executives.

**Deductibility of Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a $1 million limit on the amount that a public company may deduct for compensation paid to the company s chief executive officer or any of the company s four other most highly compensated executive officers employed as of the end of the year. This limitation does not apply to compensation that is paid only if the executive s performance meets pre-established objective goals based on performance criteria approved by stockholders. We have taken action, where possible and considered appropriate, to preserve the deductibility of compensation paid to the Company s executive officers. We have also awarded compensation that might not be fully tax deductible when such grants were nonetheless in the best interest of the Company and its stockholders. The Company generally will be entitled to take tax deductions relating to compensation that is performance-based, which may include cash incentives, stock options, restricted stock, and other performance-based awards.

**Summary**

Administaff s overall compensation objective is a pay-for-performance philosophy. A majority of each executive officer s total compensation package consists of a long-term incentive component and a variable compensation component, with a goal of aligning the interests of the executive officers with that of the stockholders, as well as tying their compensation to the performance of the Company. A stable base salary is provided in order to remain competitive with the market, with a small percentage of an executive officer s total compensation consisting of supplemental benefits and perquisites. We believe this combination of compensation elements supports our compensation objective of a pay-for-performance philosophy.

**COMPENSATION COMMITTEE REPORT**

We have reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on such review, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement for filing with the Securities and Exchange Commission.

The foregoing report is provided by the following directors, who constitute the Compensation Committee:

COMPENSATION COMMITTEE
Eli Jones, Chairman
Jack M. Fields, Jr.
Gregory E. Petsch

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