

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

Description of Business Administaff, Inc. (“the Company”) is a professional employer organization (“PEO”) that provides a comprehensive Personnel Management System encompassing a broad range of services, including benefits and payroll administration, medical and workers’ compensation insurance programs, personnel records management, employer liability management, employee recruiting and selection, performance management, and training and development services to small and medium-sized businesses in strategically selected markets. During 2000, 1999 and 1998, revenues from the Company’s Texas markets represented 50%, 61% and 72% of the Company’s total revenues, respectively.

Segment Reporting The Company operates in one reportable segment under the Statement of Financial Accounting Standards (“SFAS”) No. 131, *Disclosures about Segments of an Enterprise and Related Information* due to its centralized structure.

Principles of Consolidation The consolidated financial statements include the accounts of Administaff, Inc. and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents Cash and cash equivalents include bank deposits and short-term investments with original maturities of three months or less at the date of purchase.

Concentrations of Credit Risk Financial instruments that could potentially subject the Company to concentration of credit risk include accounts receivable. The Company generally requires clients to pay invoices for service fees no later than one day prior to the applicable payroll date. As such, the Company generally does not require collateral.

Marketable Securities The Company accounts for marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase and re-evaluates such classification as of each balance sheet date. At December 31, 2000 and 1999, all of the Company’s investments in marketable securities were classified as available-for-sale, and as a result, were reported at fair value. Unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) in stockholders’ equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts from the date of purchase to maturity. Such amortization is included in interest income as an addition to or deduction from the coupon interest earned on the investments. The cost of investments sold is based on the average cost method, and realized gains and losses are included in other income (expense).

Property and Equipment Property and equipment is recorded at cost and is depreciated over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives of property and equipment for purposes of computing depreciation are as follows:

Buildings and improvements	5–30 years
Computer hardware and software	2–5 years
Software development costs	3–5 years
Furniture and fixtures	5–7 years
Vehicles	5 years

Software development costs relate primarily to the Company's proprietary professional employer information system and its Internet-based service delivery platform, Administaff Assistant, and are accounted for in accordance with Statement of Position ("SOP") 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. The Company periodically evaluates its capitalized software development costs for impairment in accordance with SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of*. During the fourth quarter of 1999, the Company wrote off \$1,438,000 related to two terminated projects after evaluating the costs incurred to date, expected cost of completion, expected maintenance costs and the availability of alternative software packages.

PEO Service Fees and Worksite Employee Payroll Costs

The Company's revenues consist of service fees paid by its clients under its Client Service Agreements. In consideration for payment of such service fees, the Company agrees to pay the following direct costs associated with the worksite employees: (i) salaries and wages; (ii) employment-related taxes; (iii) employee benefit plan premiums; and (iv) workers' compensation insurance premiums. The Company accounts for PEO service fees and the related direct payroll costs using the accrual method. Under the accrual method, PEO service fees relating to worksite employees with

earned but unpaid wages at the end of each period are recognized as unbilled revenues and the related direct payroll costs for such wages are accrued as a liability during the period in which wages are earned by the worksite employee. Subsequent to the end of each period, such wages are paid and the related PEO service fees are billed. Unbilled receivables at December 31, 2000 and 1999 are net of prepayments received prior to year-end of \$5,716,000 and \$3,338,000, respectively.

During 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition*. Additionally, the Emerging Issues Task Force ("EITF") reached a consensus during 2000 on EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. The Company evaluated its revenue recognition policies, and the effect of adopting SAB 101 and the EITF resulted in no revisions to the Company's previous recognition policies. In accordance with the EITF, the Company is at risk for the payment of its direct costs, whether or not the Company's clients pay the Company on a timely basis or at all, and the Company assumes a significant amount of other risks and liabilities as a co-employer of its worksite employees, and therefore, is deemed to be a principal in its personnel management services.

Fair Value of Financial Instruments The carrying amounts of cash, cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturities of these instruments.

Stock-Based Compensation The Company accounts for stock-based compensation arrangements with employees under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*.

Employee Savings Plan Effective January 1, 1999, the Company amended the employer matching contribution and vesting features of its 401(k) plan. The Company matches 50% of an eligible worksite employee's contributions and 100% of an eligible corporate employee's contributions, both up to 6% of the employee's eligible

compensation. In addition, for active employees on or after January 1, 1999, the vesting schedule for employer matching contributions was changed from five-year graded vesting to immediate vesting. During 2000, 1999 and 1998, the Company made employer-matching contributions of \$7,433,000, \$4,646,000 and \$2,805,000, respectively. Of these contributions, \$6,019,000, \$3,761,000 and \$2,805,000 were made on behalf of worksite employees. The remainder represents employer contributions made on behalf of corporate employees.

Advertising The Company expenses all advertising costs as incurred.

Income Taxes The Company uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and income tax carrying amounts of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Reclassifications Certain prior year amounts have been reclassified to conform to the 2000 presentation.

NOTE 2. MARKETABLE SECURITIES

As of December 31, 2000, the Company's investments in marketable securities consisted of debt securities with maturities ranging from 91 days to five years from the date of purchase. Approximately 34.4% of the marketable securities mature within one year of the balance sheet date. However, all of the Company's marketable securities are available to fund the Company's current operations. The following is a summary of the Company's available-for-sale marketable securities as of December 31, 2000 and 1999:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DECEMBER 31, 2000				
Fixed income mutual funds	\$ 13,025	\$ 101	\$ -	\$ 13,126
Obligations of state and local government agencies	11,873	11	-	11,884
Commercial paper	8,277	-	(4)	8,273
U.S. corporate debt securities	3,761	29	-	3,790
U.S. Treasury securities and obligations of U.S. government agencies	1,845	35	-	1,880
	\$ 38,781	\$ 176	\$ (4)	\$ 38,953
DECEMBER 31, 1999				
Fixed income mutual funds	\$ 1,763	\$ -	\$ (14)	\$ 1,749
Obligations of state and local government agencies	21,953	-	(125)	21,828
U.S. corporate debt securities	4,487	-	(41)	4,446
U.S. Treasury securities and obligations of U.S. government agencies	2,732	-	(38)	2,694
	\$ 30,935	\$ -	\$ (218)	\$ 30,717

For the years ended December 31, 2000, 1999 and 1998, net realized gains (losses) on sales of available-for-sale marketable securities were \$(31,000), \$92,000 and \$72,000, respectively.

NOTE 3. NOTES RECEIVABLE FROM EMPLOYEES

In June 1995, an officer and director of the Company exercised options to purchase 897,334 shares of common stock at a price of \$0.375 per share. The purchase price was paid in cash by the officer. In connection with the exercise, the Company entered into a loan agreement with the officer, whereby the Company paid certain federal income tax withholding requirements related to the stock option exercise on behalf of the officer in the amount of \$694,000. The loan agreement called for an additional amount to be advanced to the officer in the event the ultimate tax liability resulting from the exercise exceeded the statutory withholding requirements. In April 1996, the Company loaned the officer an additional \$300,000 relating to this transaction. The loans are repayable on June 22, 2002 and April 11, 2001, respectively, accrue interest at 6.83% and are secured by 48,982 shares of the Company's common stock.

NOTE 4. OTHER ASSETS

During 2000, the Company made equity investments in two privately-held development stage companies. The Company purchased 5,864,566 shares of convertible preferred stock of Virtual Growth, Inc. ("VGI"), along with 219,512 detachable preferred stock purchase warrants, for a total cost of \$3 million. The VGI preferred stock is convertible into an equal number of shares of VGI common stock, subject to antidilution provisions. The Company also received 600,000 common stock purchase warrants from VGI with exercise prices ranging from \$10 to \$45 per share and terms of two to four years. In addition, the Company purchased 500,000 shares of convertible preferred stock of eProsper, Inc. ("eProsper") for \$2.5 million. The eProsper preferred stock is convertible into an equal number of shares of eProsper common stock, subject to antidilution provisions. The Company has accounted for each of these investments using the cost method.

NOTE 5. INCOME TAXES

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes. Significant components of the net deferred tax assets and net deferred tax liabilities as reflected on the balance sheet are as follows:

	December 31,	
	2000	1999
(in thousands)		
Deferred tax liabilities:		
Software development costs	\$ (3,623)	\$ (2,427)
Depreciation and amortization	(3,026)	(1,193)
Prepaid commissions	(824)	(1,072)
Total deferred tax liabilities	(7,473)	(4,692)
Deferred tax assets:		
Uncollectible accounts receivable	584	57
State income taxes	326	14
Other	151	164
Total deferred tax assets	1,061	235
Net deferred tax liabilities	\$ (6,412)	\$ (4,457)
Net current deferred tax assets (liabilities)	\$ 694	\$ (141)
Net noncurrent deferred tax liabilities	(7,106)	(4,316)
	\$ (6,412)	\$ (4,457)

The components of income tax expense are as follows:

	Year ended December 31,		
	2000	1999	1998
(in thousands)			
Current income tax expense:			
Federal	\$ 6,584	\$ 2,776	\$ 1,964
State	1,175	492	783
Total current income tax expense	7,759	3,268	2,747
Deferred income tax expense:			
Federal	1,627	1,339	2,379
State	328	247	369
Total deferred income tax expense	1,955	1,586	2,748
Total income tax expense	\$ 9,714	\$ 4,854	\$ 5,495

In 2000, 1999 and 1998, income tax benefits of \$4,437,000, \$95,000 and \$575,000, respectively, resulting from deductions relating to nonqualified stock option exercises and disqualifying dispositions of certain employee incentive stock options were recorded as increases in stockholders' equity.

The reconciliation of income tax expense computed at U.S. federal statutory tax rates to the reported income tax expense is as follows:

	Year ended December 31,		
	2000	1999	1998
(in thousands)			
Expected income tax expense at 34%	\$ 9,049	\$ 4,832	\$ 4,970
State income taxes, net of federal benefit	985	488	887
Nondeductible expenses	180	126	91
Tax-exempt interest income	(234)	(348)	(453)
Other, net	(266)	(244)	—
Reported total income tax expense	\$ 9,714	\$ 4,854	\$ 5,495

NOTE 6. STOCKHOLDERS' EQUITY

On October 16, 2000, the Company effected a two-for-one stock split in the form of a 100% stock dividend. All share and per share amounts presented in these financial statements have been retroactively restated to reflect this change in the Company's capital structure.

In 1999, the Company's Board of Directors (the "Board") authorized a program to repurchase up to four million shares of the Company's outstanding common stock. The purchases are to be made from time to time in the open market or directly from stockholders at prevailing market prices based on market conditions or other factors. As of December 31, 2000, the Company had repurchased 2,342,000 shares at a total cost of approximately \$18.7 million, including 289,200 shares purchased from affiliates of Mr. Lang Gerhard, a greater than 10% shareholder, in a private transaction for approximately \$2.3 million.

In January 1998, the Company entered into a Securities Purchase Agreement with American Express Travel Related Services Company, Inc. ("American Express") whereby the Company sold units consisting of 1,386,252 shares of its common stock (586,252 shares from Treasury Stock) and warrants to purchase an additional 4,131,030 shares of common stock to American Express for a total purchase price of \$17.7 million. The warrants have exercise prices ranging from \$20 to \$40 per share and terms ranging from three to seven years. Subsequent to December 31, 2000, American Express exercised 800,000 common stock purchase warrants at \$20 per share. In addition, the Company repurchased 800,000 shares of its common stock from American Express at \$24.46 per share.

In March 1998, the Company repurchased 300,000 shares of common stock from three stockholders, two of whom were officers of the Company and one who was a director of the Company at the time of the purchase, for a total cost of \$3.1 million.

NOTE 7. EMPLOYEE INCENTIVE PLAN

The Administaff, Inc. 1997 Incentive Plan, as amended (the "Incentive Plan"), provides for options and other stock-based awards that may be granted to eligible employees and non-employee directors of the Company or its subsidiaries. An aggregate of 2,965,914 shares of common stock of the Company are authorized to be issued under the Incentive Plan. At December 31, 2000, 284,041 shares of common stock were available for future grants under the Incentive Plan. All awards previously granted to employees under the Incentive Plan have been stock options, primarily intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code (the "Code"). The purpose of the Incentive Plan is to promote the interests of the Company by encouraging employees of the Company and its subsidiaries and the non-employee directors of the Company to acquire or increase their equity interests in the Company and to

provide a means whereby such persons may develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its stockholders. The Incentive Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). The Committee has the power to determine which eligible employees will receive awards, the timing and manner of the grant of such awards, the exercise price of stock options (which may not be less than market value on the date of grant), the number of shares and all of the terms of the awards. The Committee has granted limited authority to the President of the Company regarding the granting of stock options. The Board of Directors may at any time terminate or amend the Incentive Plan, provided that no such amendment may adversely affect the rights of optionees with regard to outstanding options. Stockholder approval of an amendment to the Incentive Plan is necessary only when required by applicable law or stock exchange rules.

Effective July 27, 1999, the Company adopted the Administaff Nonqualified Stock Option Plan (the "Nonqualified Plan"). The Nonqualified Plan provides that options to purchase shares of the Company's common stock may be granted to employees who are not officers. An aggregate of 3,600,000 shares of common stock of the Company are authorized to be issued under the Nonqualified Plan. At December 31, 2000, 1,895,736 shares of common stock were available for future grants under the Nonqualified Plan. The purpose of the Nonqualified Plan is similar to that of the Incentive Plan. The Nonqualified Plan is administered by the Chief Executive Officer of the Company (the "CEO"). The CEO has the power to determine which eligible employees will receive stock option rights, the timing and manner of the grant of such rights, the exercise price (which may not be less than market value on the grant date), the number of shares and all of the terms of the options. The Committee may at any time terminate or amend the Nonqualified Plan, provided that no such amendment may adversely affect the rights of optionees with regard to outstanding options.

The following summarizes stock option activity and related information:

	Year ended December 31,					
	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
(in thousands, except per share amounts)						
Outstanding – beginning of year	2,244	\$ 9.79	1,440	\$ 10.97	1,310	\$ 8.17
Granted	1,894	31.15	1,040	7.88	396	16.79
Exercised	(618)	9.23	(98)	6.63	(196)	4.41
Canceled	(87)	12.74	(138)	10.04	(70)	9.84
Outstanding – end of year	3,433	\$ 21.58	2,244	\$ 9.79	1,440	\$ 10.97
Exercisable – end of year	746	\$ 10.38	570	\$ 9.85	396	\$ 8.56
Weighted average fair value of options granted during year		\$ 19.17		\$ 4.67		\$ 8.81

The following summarizes information related to stock options outstanding at December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares (in thousands)	Remaining Life (Years)	Weighted Average Exercise Price	Shares (in thousands)	Remaining Life (Years)	Weighted Average Exercise Price
\$ 6.75 to \$ 15.00	1,286	7.5	\$ 8.60	606	7.1	\$ 8.70
\$ 15.00 to \$ 20.00	1,114	8.9	19.05	107	7.8	16.28
\$ 20.00 to \$ 30.00	173	9.2	25.08	33	8.2	22.18
\$ 30.00 to \$ 43.69	860	9.7	43.57	—	—	—
Total	3,433	8.6	\$ 21.58	746	7.2	\$ 10.38

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its stock-based compensation arrangements because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, *Accounting for Stock-Based Compensation*, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, no compensation expense has been recognized because the exercise price of the Company's employee stock options has equaled the market price of the underlying stock on the date of grant.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method prescribed by SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	Year ended December 31,		
	2000	1999	1998
Risk-free interest rate	6.2 %	5.5 %	5.2 %
Expected dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility	0.68	0.65	0.54
Weighted average expected life (in years)	5.0	5.0	5.0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the Company's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information, as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method prescribed by SFAS No. 123, follows:

	Year ended December 31,		
	2000	1999	1998
Pro forma net income (in thousands)	\$ 11,360	\$ 7,370	\$ 8,070
Pro forma diluted earnings per share	\$ 0.39	\$ 0.28	\$ 0.28

NOTE 8. EARNINGS PER SHARE

The numerator used in the calculations of both basic and diluted earnings per share for all periods presented was net income. The denominator for each period presented was determined as follows:

	Year ended December 31,		
	2000	1999	1998
(in thousands)			
Denominator:			
Basic earnings per share – weighted average shares outstanding	27,188	27,462	28,760
Effect of dilutive securities:			
Common stock purchase warrants – treasury stock method	379	–	14
Common stock options – treasury stock method	1,368	128	592
	1,747	128	606
Diluted earnings per share – weighted average shares outstanding plus effect of dilutive securities	28,935	27,590	29,366

NOTE 9. OPERATING LEASES

The Company leases various office facilities, furniture and equipment under operating leases. Most of the leases contain purchase and/or renewal options at fair market and fair rental value, respectively. Rental expense relating to all operating leases was \$4,446,000, \$2,915,000 and \$1,827,000 in 2000, 1999 and 1998, respectively. At December 31, 2000, future minimum rental payments under noncancelable operating leases are as follows:

(in thousands)	
2001	\$ 6,426
2002	6,262
2003	5,821
2004	5,456
2005 and thereafter	18,080
	\$ 42,045

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Company is a defendant in various lawsuits and claims arising in the normal course of business. Management believes it has valid defenses in these cases and is defending them vigorously. While the results of litigation cannot be predicted with certainty, management believes the final outcome of such litigation will not have a material adverse effect on the Company's financial position or results of operations.

The Company's 401(k) plan is currently under audit by the Internal Revenue Service (the "IRS") for the year ended December 31, 1993. Although the audit is for the 1993 plan year, certain conclusions of the IRS could be applicable to other years as well. In addition, the IRS has established an Employee Leasing Market Segment Group (the "Market Segment Group") for the purpose of identifying specific compliance issues prevalent in certain segments of the PEO industry. Approximately 70 PEOs, including the Company, have been randomly selected by the IRS for audit pursuant to this program. Two primary issues have arisen from these audits.

The first issue involves the Company's rights under the Code as a co-employer of its worksite employees, including officers and owners of client companies. In conjunction with the 1993 401(k) plan year audit, the IRS Houston District has sought technical advice (the "Technical Advice Request") from the IRS National Office about whether worksite employee participation in the 401(k) plan violates the exclusive benefit rule under the Code because they are not employees of the Company. The Technical Advice Request contains the conclusions of the IRS Houston District that the 401(k) plan should be disqualified because it covers worksite employees who are not employees of the Company.

The Company's response to the Technical Advice Request refutes the conclusions of the IRS Houston District. With respect to the Market Segment Group study, the Company understands that the issue of whether a PEO and a client company may be treated as co-employers for certain federal tax purposes (the "Industry Issue") has been referred to the IRS National Office.

The Company does not know whether the IRS National Office will address the Technical Advice Request independently of the Industry Issue. Should the IRS conclude that the Company is not a "co-employer" of worksite employees for purposes of the Code, worksite employees could not continue to make salary deferral contributions to the 401(k) plan or pursuant to the Company's cafeteria plan or continue to participate in certain other employee benefit plans of the Company. The Company believes that, although unfavorable to the Company, a prospective application of such a conclusion (that is, one applicable only to periods after the conclusion by the IRS is finalized) would not have a material adverse effect on its financial position or results of operations, as the Company could continue to make available comparable benefit programs to its client companies at comparable costs to the Company. However, if the IRS National Office adopts the conclusions of the IRS Houston District set forth in the Technical Advice Request and any such conclusions were applied retroactively to disqualify the 401(k) plan for 1993 and subsequent years, employees' vested account balances under the 401(k) plan would become taxable, the Company would lose its tax deductions to the extent its matching contributions were not vested, the 401(k) plan's trust would become a taxable trust and the Company would be subject to liability with respect to its failure to withhold applicable taxes with respect to certain contributions and trust earnings.

Further, the Company would be subject to liability, including penalties, with respect to its cafeteria plan for the failure to withhold and pay taxes applicable to salary deferral contributions by employees, including worksite employees. In such a scenario, the Company also would face the risk of client dissatisfaction and potential litigation. While the Company is not able to predict either the timing or the nature of any final decision that may be reached with respect to the 401(k) plan audit or with respect to the Technical Advice Request or the Market Segment Group study and the ultimate outcome of such decisions, the Company believes that a retroactive application of an unfavorable determination is unlikely. The Company also believes that a prospective application of an unfavorable determination would not have a material adverse effect on the Company's consolidated financial position or results of operations.

The second issue involved nondiscrimination test results for certain prior plan years. The Technical Advice Request issued during the 1993 401(k) plan year audit concluded that the plan should be disqualified because the plan failed to satisfy a nondiscrimination test related to contributions and failed to provide evidence that it satisfied an alternative nondiscrimination test. Separately, the Company notified the IRS of operational issues related to nondiscrimination test results for the 1991 through 1995 plan years. With respect to the 1995 plan year, the Company caused the 401(k) plan to refund the required excess contributions and earnings thereon to the affected participants, and the Company paid the excise tax associated with this correction during 1996. All remaining nondiscrimination testing issues were settled during 1999, when the Company and the IRS entered into a Closing Agreement on Final Determination Covering Specific Matters (the "Closing Agreement").

Under the terms of the Closing Agreement, the Company agreed to make a contribution to the 401(k) plan on behalf of certain participants in an aggregate amount of approximately \$831,000. The settlement amount, which was remitted to the 401(k) plan in January 2000, represented the amount necessary to bring the plan into compliance with the nondiscrimination tests for all years covered, plus calculated earnings on such contributions. The Company also agreed to pay a penalty of \$70,000. Further, the IRS agreed and determined that the 401(k) plan will not be treated as disqualified for the 1992, 1993 and 1994 plan years.

The amount of the settlement was significantly lower than the amount originally estimated and accrued by the Company in 1996. As a result, the Company recorded a gain of \$952,000 during 1999 as a component of other income. This gain includes the impact of the Company's adjusted amount recoverable from its third-party record keeper pursuant to a 1996 agreement, under which the record keeper agreed to reimburse the Company for a portion of its settlement of the nondiscrimination testing issues.

NOTE 11. QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share amounts)	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
YEAR ENDED DECEMBER 31, 2000:				
Revenues	\$ 755,545	\$ 864,450	\$ 962,039	\$ 1,126,497
Gross profit	20,705	31,342	40,067	46,420
Operating income (loss)	(4,699)	3,480	10,573	12,880
Net income (loss)	(2,471)	2,800	7,415	9,156
Basic net income (loss) per share	(0.09)	0.10	0.27	0.33
Diluted net income (loss) per share	(0.09)	0.10	0.25	0.31
YEAR ENDED DECEMBER 31, 1999:				
Revenues	\$ 475,853	\$ 505,683	\$ 562,812	\$ 716,395
Gross profit	13,555	19,919	26,191	29,863
Operating income (loss)	(4,062)	1,801	6,389	6,431
Net income (loss)	(2,058)	1,515	4,387	5,514
Basic net income (loss) per share	(0.07)	0.06	0.16	0.21
Diluted net income (loss) per share	(0.07)	0.06	0.16	0.20
YEAR ENDED DECEMBER 31, 1998:				
Revenues	\$ 362,396	\$ 393,643	\$ 431,511	\$ 495,513
Gross profit	11,173	16,326	20,037	21,074
Operating income (loss)	(2,048)	2,613	5,252	5,384
Net income (loss)	(742)	2,163	3,786	3,916
Basic net income (loss) per share	(0.03)	0.07	0.13	0.13
Diluted net income (loss) per share	(0.03)	0.07	0.13	0.13