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Westaff, Inc.

2005 Fiscal Year-End and Fourth Quarter Conference Call
January 10, 2006

**Trish Newman – President and CEO
Westaff, Inc.**

Thank you Operator. Good morning everyone. This is Trish Newman, President and Chief Executive Officer of Westaff. I am delighted to welcome you to our fiscal fourth quarter conference call. Today we will be discussing Westaff's results for the fourth quarter and fiscal year ended October 29, 2005. Participating with me in today's call will be our Senior Vice President and Chief Financial Officer, Dirk Sodestrom. Following this introduction, Dirk will provide some initial comments and then I will comment on highlights for the year and quarter and make some commentary on the Company's performance. Dirk will discuss some additional details of our financial position and then we will open the call to questions.

I do want to mention that I am making this call from the UK whilst visiting our operations here. Dirk is in our offices in California. Hopefully we will be able to transition back and forth without undue delay.

**Dirk Sodestrom – Senior Vice President and CFO
Westaff, Inc.**

Thank you Trish.

Please be advised that statements included in this conference call that are not a description of historical facts are forward-looking statements. The inclusion of forward-looking statements should not be regarded as a representation by Westaff that any of its plans will be achieved. Actual results may differ materially from those set forth in this conference call due to the risks and uncertainties inherent in Westaff's business including, without limitation, statements about: growth and strategies, future operating and financial results, gross margins, permanent placement revenues, investments in information technology systems, financial expectations for the first quarter of fiscal 2006 and beyond, and other risks detailed in the "Risk Factors" section of Westaff's Annual Report on Form 10-K filed on January 28, 2005. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. All forward-looking statements are qualified in their entirety by this cautionary statement and Westaff undertakes no obligation to revise or update statements made during this conference call to reflect events or circumstances after the date hereof.

I also call your attention to the fact that the Company's fiscal year is a 52 week period ending the Saturday nearest the end of October. For interim reporting purposes, the first three fiscal quarters comprise 12 weeks each while the fourth fiscal quarters of 2004 and 2005 consist of 16 weeks each.

**Trish Newman - President and CEO
Westaff, Inc.**

- I am very pleased with Westaff's significant progress during this quarter and fiscal year and the opportunities for Westaff for the future. Let me highlight a few of the annual results first.
- Fiscal 2005 revenue increased \$23 million or 3.9% and our gross margin increased from 16.8% in fiscal 2004 to 17.3% in fiscal 2005. Combined, this means that our gross profit dollars after all direct costs increased nearly 7% for the fiscal year.
- We generated income from continuing operations before income taxes of \$4.7 million for fiscal 2005, an increase of \$1.3 million or nearly 40% over fiscal 2004.
- One of our key objectives for fiscal 2005 was to begin to build our permanent placement service line in the US. I am pleased to report that US fees from permanent placements grew nearly 60% during fiscal 2005.
- We completed a field organization restructure that was designed to streamline the operation, improve profitability and support expansion. This restructure was well-received by our field organization and, as I will comment on later, is starting to have an impact on our top line sales in the US.
- Now some highlights for the fourth quarter. Revenue for the fourth quarter of fiscal 2005 was \$201 million, down slightly from the fourth quarter of fiscal 2004. Domestic revenue decreased 2.7% due partially to a shift in business mix in an effort to increase gross margins as well as the effects of the November 2004 divestiture of one of the Company's franchises. International revenue increased 9.4% as a result of strong national account sales growth in Australia partially offset by sales declines in the UK as a result of "offshoring" of certain staffing functions by a number of Westaff's UK customers.
- Our domestic permanent placement revenues grew over 80% during the fourth quarter as a result of our continued focus on growing this very important line of business in the U.S. We believe that there are significant opportunities for the expansion of both sales and profits from the permanent placement business in the US. Permanent placement fees represent less than 1% of sales for the domestic operations, whilst we have been able to generate nearly 5% of our revenue in the UK from this service line. To date we have nearly 30 permanent

placement consultants on board in the US and we are continuing to recruit for this important role.

- Gross Margin continued to improve increasing to 17.5% for the fiscal 2005 quarter as compared to 16.7% for the 2004 quarter. Gross margin increased primarily as a result of stabilization of workers' compensation costs, which Dirk will comment on later in the call, bill rate increases, changes in business mix and increased permanent placement fees as I just mentioned.
- We are continuing to invest in our people to drive the long-term growth and profitability of the Company. Selling and administrative expenses increased \$0.7 million or 2.9% during the quarter due primarily to higher salary costs and related benefits and payroll taxes. We have increased our field office staff by over 10% as compared to the prior year end and we have invested in additional staff to support the implementation of our new business process management software systems. The fourth quarter of fiscal 2005 included costs of approximately \$0.5 million associated with our restructure whilst the fiscal 2004 quarter included costs of \$0.9 million associated with an unfavorable arbitration ruling.
- Income from continuing operations before income taxes for the fourth quarter of fiscal 2005 grew to \$2.8 million, an increase of \$0.9 million or nearly 50% as compared to the fiscal 2004 quarter. I am quite pleased with the overall results for the quarter in light of the investments that we are making in the future of the Company.
- As we mentioned in our earnings release, our restructure is now fully in place and we are beginning to see positive results in domestic sales as well as in the development of our permanent placement service line. I am very pleased to report that, based on early sales reports for fiscal 2006, total domestic revenue increased approximately 6% for the first two, four-week accounting periods of fiscal 2006. We currently expect domestic revenue for the first quarter of fiscal 2006 to increase 2% to 5% as compared to the fiscal 2005 quarter, which takes into consideration the effect of the timing of the holidays in fiscal 2006 as compared to fiscal 2005.
- As I complete my first 9 months as CEO of Weststaff my optimism about our future has been reinforced. The Company's high quality standards and dedicated workforce combined with a new sharply focused sales culture and a genuine excitement about the future is beginning to bear fruit.
- I will now turn over the call to our CFO, Dirk Sodestrom, to provide some more comments on our performance.

Dirk Sodestrom – Senior Vice President and CFO
Westaff, Inc.

- Thank you Trish. As previously disclosed, we completed the sale of our Denmark and Norway operations during the third quarter. Accordingly, prior period financial information for these businesses has been separated from continuing operations and is reflected as discontinued operations in the Company's financial tables.
- As Trish noted, we began to see some stabilization in our workers' compensation cost trends during fiscal 2005 which has helped contribute to our improved margins for the quarter and year. As you may recall, the fiscal 2004 fourth quarter included a charge of \$1.7 million to increase the Company's domestic workers' compensation reserves as a result of unfavorable loss development trends. During fiscal 2005 the Company increased its basic accrual rates for workers' compensation which, combined with more stable loss trends, resulted in no such charge in fiscal 2005.
- During the fourth quarter of fiscal 2005 the Company reversed \$17.7 million of its domestic deferred tax asset valuation allowance. As a result of the Company's positive domestic earnings in both fiscal 2004 and 2005, the favorable projected earnings outlook, the Company's long-term history of profitability as well as improvements in the Company's financial position, the Company has determined that it is more likely than not that the deferred tax asset will be realized. The reversal resulted in an increase in net income of \$17.7 million, or \$1.07 per diluted share for the fourth quarter.
- The Company has continued to effectively manage its debt and credit facilities. Domestic revolver debt was \$2.9 million as of the end of October 29, 2005 compared to \$11 million as of the end of Fiscal 2004. Combined borrowing availability under the US, UK and Australia facilities was \$21.1 million as of the end of the fiscal year. Interest expense declined from \$749,000 in the fourth quarter of 2004 to \$566,000 in the fiscal 2005 quarter due to lower debt levels partially offset by increases in interest rates. We expect further declines in interest costs during fiscal 2006 as a result of our reduced debt levels.
- The Company has been investing in a new business process management system throughout fiscal 2005. The project includes three primary phases. The initial phase, which consisted of our human resources system for regular Westaff employees, was successfully implemented in July 2005. The second phase, which includes the core financial accounting and reporting systems, went live as scheduled with the start of the new fiscal year in November 2005. The final phase, which will include fully integrated front office functionality along with payroll for our temporary associates and billing, will likely begin rollout starting late in the fourth quarter of fiscal 2006. This represents a slight delay in our anticipated roll-out. This delay is largely to avoid impacting field offices during

the seasonally busiest time of the year. In the meantime, we do intend to convert our accounts receivable system earlier than expected, moving that portion of the project to the second fiscal quarter of 2006. Total capital expenditures for the full fiscal 2005 were \$8.0 million as compared to \$3.4 million for fiscal 2004.