In re ADECCO S.A. SECURITIES LITIGATION

This Document Relates To:
ALL ACTIONS.
INTRODUCTION

1. This is an action on behalf of purchasers of Adecco S.A. ("Adecco" or the "Company") publicly traded securities during the period from March 16, 2000 to January 9, 2004 (the "Class Period"). Adecco is primarily engaged in providing personnel services to companies and industry worldwide. The Company provides its services through its four divisions: Staffing Services, Professional Staffing and Services, Career Services and e-HR Services. Staffing Services provides mainstream staffing services, including temporary staffing and permanent placement. Professional Staffing and Services provides highly qualified specialized temporary and permanent placement focused primarily on the finance and accounting, as well as information technology (IT), segments. Career Services provides outplacement and coaching. e-HR Services provides online recruitment activities. The Company provides these services by contract to businesses located throughout North America, Europe, Asia Pacific and Latin America.

2. In March 2000, Adecco acquired the Olsten Corporation ("Olsten"), a rival temporary placement company. In addition to eliminating some of the competition, Adecco was interested in acquiring Olsten’s operating system. With the conversion of Adecco’s systems to the legacy Olsten IT systems, defendants became aware of massive problems in the Company’s North American receivables – moreover the problems were not limited to Olsten but also involved Adecco’s accounts. In February of 2001 (as Adecco was converting its operating system and learning the extent of its receivable problem), the chairman of the Company, defendant Jacobs, through KJ Jacobs AG, sold approximately $196 million in Adecco stock, which he controlled.

3. Numerous former employees have stated that during 2000 and 2001, the Company had millions of dollars in bad debt that it could not collect from customers that had declared bankruptcy, become insolvent or were otherwise unable to pay bills. The combination of millions of dollars in uncollectible debt and the amount that customers refused to pay – because of Adecco’s billing issues – resulted in hundreds of millions of dollars of outstanding receivables on Adecco’s books during 2000-2001. Adecco was faced with either disclosing and writing off these receivables (and thereby reducing its net income) or trying to cover it up. The defendants chose the latter.
course: they attempted to "work off" the receivables by, among other things, using current funds to pay old debts.

4. On June 25, 2001 the Company’s year-end 2000 financial statements, which were audited by the now defunct Arthur Andersen, were released. These financial statements drastically understated allowance for doubtful accounts and overstated earnings. On June 7, 2002 the Company’s year-end 2001 financial statements, which were audited by the now defunct Arthur Andersen, were released. The financial statements drastically understated allowance for doubtful accounts and overstated earnings. After Arthur Andersen imploded in the wake of the Enron Accounting scandal, Arthur Andersen was replaced by Ernst & Young LLP (“EY”) as the Company’s independent auditor. In preparation for its audit, EY reviewed the Company’s books and informed defendants that EY was concerned with the Company’s treatment of receivables in its North American operations.

5. On June 24, 2003, Adecco announced the write off of approximately $95 million of bad receivables as part of its year-end 2002 financial statements. The disclosure accompanying this write off made no reference to the Company’s weakness in internal controls, which allowed this problem to occur and which had yet to be corrected.

6. On October 22, 2003, defendants continued to tout the health of their business without any disclosure of the material weakness in internal controls of which they had been made aware. Toward the end of 2003, because the Company had failed to correct its internal control problems, which continued to allow the application of new moneys to old receivables, EY informed defendants that it would not sign off on the Company’s 2003 year-end financial statements.

7. In December of 2003, Jacobs – through KJ Jacobs AG – sold 80,000 Adecco shares and disposed of approximately 6 million Adecco shares valued at over $400 million, which he controlled.

8. On January 12, 2004, defendants disclosed that Adecco was suffering from “material weaknesses in internal controls in the Company’s North American operations of Adecco Staffing.” As a result of this disclosure the Company’s stock lost approximately 30% of its value. On January 16, 2004, defendants revealed that the “[m]aterial weaknesses, related to Adecco Staffing North
America, include . . . application of accounts receivable.” Following these announcements EY, and
the law firm of Paul Weiss conducted an investigation that cost Adecco over $120 million. This
investigation of the Company, however, included no audit of the Company’s false and misleading
2000 and 2001 financial statements prepared by the now defunct Arthur Andersen. The Company
ultimately wrote off an additional $35 million of bad receivables in June of 2004.

9. During the Class Period, defendants misrepresented and omitted material facts
regarding Adecco’s financial condition and thereby caused Adecco’s shares to trade at artificially
inflated levels. This scheme was accomplished in part through the issuance of false and misleading
financial statements which failed to disclose known trends and uncertainties, including known trends
concerning material internal control weaknesses and pervasive problems concerning Adecco’s
account receivables in its significant North American segment – a segment in which the Company
derived 24% of its revenue from in 2003.

10. Furthermore, Adecco’s assets and income were artificially inflated as the Company
improperly accounted for its receivables associated with its North American segment by failing to
properly and timely account for its uncollectible accounts. For at least the fiscal years ending
December 31, 2000 and December 31, 2001, Adecco failed to properly write-off bad debts stemming
from its North American receivables, thus causing its bad debt expense to be understated and its
income and assets to be overstated. As Adecco is a foreign company and considered to be a foreign
filer with the SEC, Adecco does not have to issue its financial statements for any given fiscal year
until six months after the close of that year. As a result, Adecco’s false and misleading year 2000
financial statements were not issued until June of 2001 and Adecco’s false and misleading 2001
financial statements were not issued until June of 2002.

11. Ultimately, in its year-end 2002 financial statements, which were not issued until
June 24, 2003 – approximately six months prior to the end of the Class Period – Adecco revealed,
for the first time, that it had finally written off approximately 95 million Euros (approximately $100
million using the year-end exchange ratio for 2002 of $1.05 to 1.00€) worth of uncollectible
receivables. Prior to this write off, the Company’s operative financial statements remained false and
misleading as they understated Adecco’s allowance for doubtful accounts by over $100 million.
Moreover, the disclosure accompanying the June 24, 2003 announcement was incomplete, false, and misleading as defendants failed to disclose that the true reason for the write-off, which was the result of material weaknesses in the Company's internal controls, which had yet to be corrected. An additional 28 million Euros (approximately $35 million using the year-end exchange ratio for 2003 of $1.26 to 1.00€) were written off for year-end 2003. These results were not announced until June 28, 2004 – five months after the end of the Class Period.

12. Furthermore, defendants issued positive statements throughout the Class Period regarding the Company's financial status which were false and misleading as they failed to disclose:
   (1) the Company’s material internal control weaknesses; (2) the Company’s extremely large amount of uncollectible receivables; and (3) that the Company’s 2000 and 2001 financial statements, which were operative until June 2003 were in fact false as they understated the Company’s bad debt expense. The material weaknesses in internal controls referenced herein also allowed the company to apply new moneys to old receivables, in violation of Generally Accepted Accounting Principles (“GAAP”). This conduct caused Adecco’s stock to trade at inflated levels. As a result of the inflation of Adecco’s stock price, Adecco was able to complete a public offering of $533 million worth of convertible bonds on July 23, 2003.

**LOSS CAUSATION/ECONOMIC LOSS**

13. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated Adecco’s stock price and operated as a fraud or deceit on Class Period purchasers of Adecco stock by misrepresenting the Company’s financial results, business success and future business prospects. When defendants’ prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, on January 12, 2004, Adecco’s stock fell precipitously as the prior artificial inflation came out of Adecco’s stock price. As a result of their purchases of Adecco stock during the Class Period, plaintiffs and other members of the Class suffered economic loss, i.e., damages, under the federal securities laws.

14. By improperly reporting its financial results, the defendants presented a misleading picture of Adecco’s business and prospects. Thus, instead of truthfully disclosing, during the Class
Period, that Adecco’s business was not as healthy as represented, defendants caused Adecco to falsely report assets and income.

15. Defendants’ misrepresentations and omissions caused and maintained the artificial inflation in Adecco’s stock price throughout the Class Period and until the truth was revealed to the market.

16. Defendants’ false and misleading statements had the intended effect and caused Adecco stock to trade at artificially inflated levels, throughout the Class Period.


Adecco S.A. announced that it does not expect the audit of its consolidated financial statements for the 2003 fiscal year, ended on December 28, 2003, to be completed by Adecco’s auditors, by the previously announced release date of February 4, 2004.

The reasons for the delay in completion of the audit include:

- The identification of material weaknesses in internal controls in the Company's North American operations of Adecco Staffing

- The resolution of possible accounting, control and compliance issues in the Company’s operations in certain countries

- The completion of the Company’s efforts to address these matters and determine their effect on the Company’s consolidated financial statements.

In this regard an independent Counsel has been appointed by the Audit & Finance Committee of the Company’s Board of Directors to conduct an investigation.

The Company is not yet able to predict when the 2003 audit of its consolidated financial statements will be completed.

The stock dropped from almost $17 per share to as low as $10 per share on this news.

18. On January 16, 2004, the Company issued a press release entitled “Adecco Board Statement,” which provided specific detail regarding the particular aspects of the Company, which suffered from the material weaknesses in internal controls referenced in the January 12, 2004 press release. The press release stated, in part:

Material weaknesses, related to Adecco Staffing North America, include IT system security; reconciliation of payroll bank accounts; application of accounts receivable; and several issues affecting revenue recognition including lack of systematic documentation of agreed rates and hours; billing errors not timely
identified and corrected; and lack of segregation of duties in the branches increasing
the likelihood of undetected errors. Of the foregoing, some have already been
corrected, and the balance are being actively addressed. The Audit and Finance
Committee of the Board initiated certain measures to help to identify any further
weaknesses and permanently to resolve them. The chief focus of these measures is
to investigate accounting, control and compliance issues in the US and in certain
other countries, as well as to investigate accusations made by ‘whistleblowers’ in the
US. Outside of the US, these other countries together accounted for less than 10% of
the group’s reported 2002 net service revenues.

In addition, the Audit and Finance Committee of the Board has mandated the
New York law firm Paul Weiss, Rifkind, Wharton & Garrison LLP as independent
experts to conduct an investigation into the foregoing and related matters.

Following the Company’s statement of January 12, the US Securities and
Exchange Commission and the US Attorney’s Office for the Southern District of
New York opened investigations into this matter. Adecco has assured both
authorities of its strong cooperation.

In a further development, the Board acknowledges the resignation of the
Group CFO Felix Weber and thanks him for his years of service to Adecco. Felix
will be available to help the Chairman of the Board until the General Assembly of
2004. The current Group Financial Controller, Andres Cano, will take over the
function of CFO on an interim basis. The Board has already begun work on a
permanent appointment to this position.

Probed for Selective Disclosure by SWX Exchange.” The release stated in part:

Adecco SA, the world’s largest supplier of temporary workers, is being formally
investigated for possible selective disclosure of information to some analysts and
reporters in connection with accounting irregularities.

The SWX Swiss Exchange, which started a preliminary investigation Jan. 20,
said it had now made the probe formal, according to a faxed statement from the
Zurich-based stock market.

“The preliminary probe concluded that it can’t be ruled out that some rules
may have been violated in connection with Adecco’s announcement that it would
delay its report of 2003 results,” the exchange said in the statement.

The Zurich bourse is looking into whether Adecco breached rules that listed
companies must give all investors information that has the potential to move the
share price. Two executives including Chief Financial Officer Felix Weber quit last
month after Adecco found errors in the way it accounted for revenue.

20. On January 12, 2004, as investors and the market became aware that Adecco’s prior
financial results had been falsified and that Adecco’s actual business prospects were weaker than
previously reported, the prior artificial inflation came out of Adecco’s stock price, damaging
investors.
21. As a direct result of defendants’ admissions and the public revelations regarding the truth about Adecco’s previously reported financial results and its actual business prospects going forward, Adecco’s stock price plummeted, falling from almost $17 per share to as low as $10 per share. This drop removed the inflation from Adecco’s stock price, causing real economic loss to investors who had purchased the stock during the Class Period. In sum, as the truth about defendants’ fraud and Adecco’s business performance was revealed, the Company’s stock price plummeted, the artificial inflation came out of the stock, and plaintiffs and other members of the Class were damaged, suffering economic losses.

22. The approximately $7 decline in Adecco’s stock price at the end of the Class Period was a direct result of the nature and extent of defendants’ fraud finally being revealed to investors and the market. The timing and magnitude of Adecco’s stock price declines negate any inference that the loss suffered by plaintiffs and other Class members was caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to the defendants’ fraudulent conduct. The economic loss, i.e., damages, suffered by plaintiffs and other members of the Class was a direct result of defendants’ fraudulent scheme to artificially inflate Adecco’s stock price and the subsequent significant decline in the value of Adecco’s stock when defendants’ prior misrepresentations and other fraudulent conduct was revealed.

JURISDICTION AND VENUE

23. The claims asserted herein arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (“1934 Act”) [15 U.S.C. §§78j(b), 78(a)], and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission (“SEC”) [17 C.F.R. §240.10b-5].

24. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1337 and §27 of the 1934 Act [15 U.S.C. §78aa].

25. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.
26. This Court has subject matter jurisdiction over the claims of all Class members, including those living outside the United States, who purchased Adecco securities traded both domestically and elsewhere, because of the facts alleged herein.

27. Defendants have engaged in extensive fraud-related conduct in the United States, as part of a single fraudulent scheme that was conceived of and carried out both domestically and in Switzerland. As detailed below, defendants' domestic activities were not merely "preparatory" or perfunctory to fraud elsewhere but rather constituted the primary locus of the scheme. Defendants' domestic misconduct led directly to losses sustained by both foreign and domestic investors. Consequently, this Court may exercise subject matter jurisdiction over the claims of foreign Class members who acquired Adecco ordinary shares traded on foreign markets pursuant to the "conduct test."

28. Moreover, as discussed below, defendants' fraudulent misconduct abroad had substantive adverse effects in the United States. Thus, under the "effects test," this Court may properly exercise subject matter jurisdiction over the claims of: (1) all investors who purchased or acquired Adecco securities traded on the United States markets; and (2) American investors who purchased or acquired Adecco securities regardless of where those securities are traded.

29. There was but a single worldwide market for Adecco common shares registered in Switzerland and listed on the SWX Swiss Stock Exchange (ADEN/trading on Virt-X: 1213860), traded as American Depository Shares on the New York Stock Exchange (ADO), and Euronext Premier Marché (ADE/12819), all of which traded in tandem. That worldwide market was defrauded by defendants' conduct, causing extensive effects both in this country and abroad.

30. The fraud perpetrated on the worldwide market by Adecco sprang directly from the Company's acquisition of Olsten, a U.S. company. Adecco purchased Olsten in March 2000 for €940 million. The fraud alleged herein primarily relates to false or misleading statements about the acquisition of Olsten and violations of U.S. GAAP that occurred within Adecco North America subsequent to and as a result of this acquisition.

31. Adecco has conceded that the four-month delay in releasing its 2003 financial statements was due to material weaknesses in its North America internal controls and compliance.
Indeed, after identifying these problems, Adecco replaced Julio Arrieta, its Chief Executive Officer for the North American operations, located in New York.

32. Adecco regularly filed false and misleading reports with the SEC in the U.S., including Form 20-Fs and numerous Form 6-Ks during the Class Period, as alleged herein. Because Adecco’s American Depository Shares (“ADSs”) are traded on domestic markets, Adecco is subject to regulations issued by the U.S. SEC. In fact, the SEC and the United States Department of Justice (“DOJ”) have launched investigations into Adecco’s conduct for possible violations of U.S. law.

33. Many of the fraudulent acts occurred in Adecco’s former Redwood City, California headquarters where defendants Bowmer and Weber both maintained offices. Defendant Weber later maintained an office at the Melville, New York headquarters. Plaintiffs believe that all individual defendants attended and/or participated in meetings that took place within the United States to discuss Adecco’s financial problems arising out of its North American operations.

34. In addition to the substantial domestic conduct in furtherance of the fraud, Adecco has a vast domestic presence in North America with 1,588 branches scattered across the United States and Canada, including several offices within this District. Adecco North America serves more than 50,000 clients a year through 2,000 points of sales and service in every state. It employs about 5,000 full-time employees and places more than 160,000 temporary associates each week.

35. According to the Company’s Form 20-F Annual Report for 2003, signed and filed with the SEC on June 28, 2004 (the “2003 20-F”), North America accounted for 24% of Adecco’s total revenue. The 20-F states that its U.S. revenue was purportedly over €3.8 billion in 2003.

36. Several of defendants’ false and misleading statements alleged herein were made initially in the United States, particularly by defendant Bowmer in California. Misleading statements made abroad were disseminated into the United States and internationally through the means and instrumentalities of interstate commerce, including but not limited to the mails, interstate telephone communications and the facilities of the national securities markets.

37. The prices of Adecco’s ADSs were artificially inflated throughout the Class Period as a result of defendants’ false or misleading statements and both American and foreign purchasers were damaged as a result.
38. The facts alleged herein justify the exercise of subject matter jurisdiction over the claims of all plaintiffs who, relying on the health and value of Adecco’s U.S. presence, acquired Company securities traded on foreign markets, and were defrauded by defendants’ misrepresentations.

39. This Court may also exercise jurisdiction over defendants pursuant to §27 of the 1934 Act and the Due Process Clause of the United States Constitution. Defendants have purposefully availed themselves of the laws of this state and of the United States by transacting business and/or owning property in California, and/or directing communications to Adecco investors and shareholders located in California. The claims alleged herein arise from such conduct. Moreover, each defendant has sufficient minimum contacts with California to render the exercise of jurisdiction permissible under traditional notions of fair play and substantial justice.

40. At all relevant times, defendant Bowmer lived and worked in the State of California and maintained an office at Adecco North America’s former Redwood City headquarters.

41. As aforementioned, defendant Weber maintained an office and spent a substantial amount of time at the former Redwood City headquarters. In addition, he has owned property in San Mateo and Redwood City, California. Weber also initiated and/or approved public communications directed at U.S. investors and purchasers of Adecco securities.

42. Defendant Caille’s name has appeared on corporate filings lodged with the California Secretary of State. For example, Caille was listed as a manager of Ajilon Professional Staffing LLC on a filing dated January 3, 2003, with his business address at 175 Broadhollow Road, Melville, New York. In addition, Caille regularly participated in conference calls with the Redwood City office and likely traveled to California for meetings with defendant Bowmer and other executives. Moreover, as CEO of Adecco, Caille initiated and/or approved public communications directed at U.S. investors and purchasers of Adecco securities.

43. Venue is proper in this District pursuant to 28 U.S.C. §1391(b) and §27 of the 1934 Act (15 U.S.C. §78aa). Adecco conducts substantial business and maintains multiple branch offices in this District. Adecco was formed in 1996 as a result of merger between Adia and staffing company Ecc. Adecco’s North American headquarters was in Redwood City, California because, at
the time, Jacobs, then a major shareholder in Adia, lived in California. In addition, the acts complained of herein occurred in part and/or had an effect in this District. These activities include improper accounting practices, dissemination of false or misleading statements, and the sale of Adecco securities to investors and shareholders who are located in this District.

THE PARTIES

44. Lead Plaintiff West Virginia Investment Management Board purchased Adecco publicly traded securities as detailed in the certification previously filed with the Court.

45. Plaintiff Union Asset Management Holding AG purchased Adecco publicly traded securities as detailed in the certification previously filed with the Court.

46. Defendant Adecco is primarily engaged in providing personnel services to companies and industry worldwide. The Company provides its services through its four divisions: Staffing Services, Professional Staffing and Services, Career Services and e-HR Services. Staffing Services provides mainstream staffing services including temporary staffing and permanent placement. Professional Staffing and Services provides highly qualified specialized temporary and permanent placement focused primarily on the finance and accounting, as well as information technology (IT), segments. Career Services provides outplacement and coaching. e-HR Services provides online recruitment activities. The Company provides these services by contract to businesses located throughout North America, Europe, Asia Pacific and Latin America. North America accounted for about 24% of total revenue at Adecco, with U.S. revenue of over €3.8 billion in 2003.

47. Defendant John P. Bowmer ("Bowmer") was Chairman of Adecco from February 2002 through the end of the Class Period. Previously Bowmer was CEO of the Adecco Group since its inception in 1996. Bowmer participated in the preparation of the false financial statements and repeated the contents therein to the market.

48. Defendant Jerome Caille ("Caille") has been the CEO of Adecco since March 2002. Prior to his appointment as CEO, Caille served as the President of the Adecco Staffing division. Caille participated in the preparation of the false financial statements and repeated the contents therein to the market.
49. Defendant Felix A. Weber ("Weber") was CFO of Adecco from 1998 until 2004 when he resigned in the wake of Adecco's accounting scandal. Weber participated in the preparation of the false financial statements and repeated the contents therein to the market.

50. Defendant Klaus J. Jacobs ("Jacobs") is currently co-Chairman of the Board of Directors of Adecco. He was instrumental in the founding of Adecco and served as Joint Chairman from August 1996 to April 2002. Jacobs is also a controlling shareholder in Adecco, with nearly a 12% stake held by KJ Jacobs AG, an entity over which he exercises control. Jacobs controlled KJ Jacobs AG as he was the Chairman of the Jacobs Family Foundation, which possessed a 100% beneficial interest in KJ Jacobs AG. On February 9, 2001 Jacobs caused KJ Jacobs AG to sell $196 million worth of Adecco stock. This sale occurred at approximately the same time defendant Weber attended a meeting at North American headquarters, where the company's North American receivables were discussed as a major concern for Swiss Headquarters. At approximately the same time, the Company started concealing its uncollectible receivables by applying newly received moneys to old receivables. Jacobs also caused KJ Jacobs AG to dispose of millions of Adecco shares shortly before Adecco's January 12, 2004 announcement, which devastated the Company's stock price. In all, Jacobs disposed of approximately 28% of the stock he controlled during the Class Period. Defendant Jacobs is a defendant for purposes of §20(a) of the 1934 Act only.

51. Defendants Bowmer, Caille, and Weber are the "Individual Defendants." They are liable for the false statements pleaded in ¶¶90-127, as those statements were "group-published" information.

CONFIDENTIAL SOURCES

52. The allegations pled herein are made on information and belief and are supported by among other things the accounts of 17 confidential witnesses, employed by Adecco during the Class Period, including former senior Adecco executives working in the Company's North American operations. Confidential witnesses have been identified with as much particularity as possible without disclosing their identity. The confidential witnesses are as follows:

(a) Confidential Witness #1 ("CW1") is a former Senior Vice President of Adecco North America who later held other higher top executive positions. According to CW1,
Adecco’s newly appointed independent auditor EY, which had replaced Arthur Andersen after it was dissolved in the wake of the Enron accounting scandal, raised the material weaknesses in internal controls with defendants as early as January 2003. According to CW1, these weaknesses in internal controls allowed the Company to violate GAAP by applying new moneys to old receivables in order to eliminate them from the Company’s books. These weaknesses in internal controls were not disclosed to investors until January 12, 2004. According to CW1, this practice violated GAAP and resulted in misstated revenues and bad debt on Adecco’s books. CW1 further revealed that Adecco North America’s financial information was transmitted via Excel spreadsheet to Switzerland.

(b) Confidential Witness #2 (“CW2”) is a former office manager and executive recruiter for Adecco. According to CW2, flash reports were consistently inaccurate and had to be submitted multiple times before updated information appeared in the reports. CW2 recalled that her branch wrote off thousands in outstanding receivables as a result of bankruptcies. These receivables appeared on her branch’s age trial balance report, which corporate used to track the number of days outstanding with respect to receivables.

(c) Confidential Witness #3 (“CW3”) is a former district manager for Ajilon. According to CW3 the corporate collections department was “ineffective.”

(d) Confidential Witness #4 (“CW4”) is a former senior account manager for Ajilon. CW4 reported that her supervisor, a Regional Vice President, manipulated the computer program that was used to generate spreadsheets in order to increase reported margin for particular job candidates. Information from these spreadsheets was included in requests for proposals submitted to customers. On at least one occasion false numbers were submitted to Citibank.

(e) Confidential Witness #5 (“CW5”) is a former Adecco technical sales manager. According to CW5, corporate disseminated monthly operating reports reflecting billing, collections, age trial balance, and NSB. These reports continually revealed outstanding receivables. CW5 described Adecco’s outstanding collections as awful, as the Company had no centralized depository for customer contracts, billing rates, candidate pay rates, or other placement-related information. CW5 specifically recalled that Deutsche Bank, as of January 2001, was 360 days past due on over $100,000 in accounts receivable. CW5 further recalled that during the same time frame, Kodak was ...
180 days past due on an approximately $200,000 outstanding balance. These outstanding receivables from CW5’s branch were indicative of receivables outstanding at Adecco’s more than 1500 North American offices.

(f) Confidential Witness #6 (“CW6”) is a former Area Vice President for Adecco Staffing North America. CW6 recalled that Adecco’s corporate receivables procedures were lacking as they failed to record and track customers’ payments, erroneously double billed customers, and improperly charged interest to branch offices on outstanding receivables. CW6 confirmed that a weekly age trial balance report was prepared by North American headquarters, which listed numerous Adecco customers who were overdue on payments owed to Adecco. CW6 further reported that Adecco failed to efficiently track accounts receivable and purposely “fiddled” with workers compensation codes.

(g) Confidential Witness #7 (“CW7”) is a former employee in the Adecco Accounts Receivable Department. CW7 reported that he refused to complete a false report regarding the amounts of bad receivables written off by Adecco North America in March 2003. CW7 reported that as of April 2003, the Company was still writing off receivables that Olsten had incurred before it was acquired by Adecco in March 2000. CW7 recounted that one of his supervisors asked him to assist in the preparation of an Excel spreadsheet report regarding Adecco’s monthly write off of bad receivables by customers for March 2003. The report was supposed to identify the top 100 customers with the largest outstanding receivables written off by Adecco that month. Because CW7 lacked sufficient information to complete this report, CW7’s supervisor requested that he falsify the report. CW7 reported this activity, specifically, to Adecco North America President Julio Arietta.

(h) Confidential Witness #8 (“CW8”) is a former Senior Regional Vice President for Adecco Staffing North America. According to CW8, following the acquisition of Olsten, Adecco’s biggest problem was all the bad receivables that Adecco had assumed. Southern Division Vice President, Joyce Russell told CW8 that Adecco maintained a reserve account to cover the outstanding receivables written off each quarter and that Adecco maintained a “slush fund” to cover the losses.
(i) Confidential Witness #9 ("CW9") is a former Regional Vice President for Adecco Staffing North America. CW9 reported that Adecco North America’s bad receivables resulted from difficulties with Adecco’s computer conversion as well as its inability to apply customer payments to proper invoices. CW9 further reported that Adecco had difficulty collecting payments from Olsten customers. This problem was exacerbated by the system’s conversion following the Olsten acquisition.

(j) Confidential Witness #10 ("CW10") is a former international financial analyst for Adecco Staffing North America. According to CW10, Weber maintained an office and spent time at Adecco’s Redwood City, California Office. CW10 also stated that once a month, financial information was sent to Redwood City for review.

(k) Confidential Witness #11 ("CW11") is a former Director of Treasury for Adecco Staffing North America. CW11 reported that Adecco had difficulty collecting outstanding receivables and applying payments collected from customers to the proper invoices and matching up receipts. CW11 further reported that Adecco North America’s accounts receivable problem was the largest area of difficulty faced by the Company during the Class Period. CW11 reported that Adecco did not have an automatic system in place at the corporate North American office, to match payments received from customers to corresponding accounts receivable. This resulted in large uncollectible accounts receivables during the Class Period.

(l) Confidential Witness #12 ("CW12") is a former Adecco corporate collector. CW12 was charged with contacting delinquent customers regarding overdue payments.

(m) Confidential Witness #13 ("CW13") is a former District Manager for Ajilon. CW13 reported that accounts receivable were handled out of corporate.

(n) Confidential Witness #14 ("CW14") is a former business analyst for Adecco Staffing North America. CW14 participated in the integration of Olsten and Adecco computer systems following the merger.

(o) Confidential Witness #15 ("CW15") is a former Vice President and consultant at Lee Hecht Harrison, a division of Adecco. CW15 reported that the division interfaced with Adecco through weekly staff meetings, reports, and through the Company’s computer system.
Confidential Witness #16 ("CW16") is a former collections specialist in Adecco’s Melville, New York headquarters. CW16 was assigned to collect outstanding receivables from three legacy Olsten customers, MetLife, Prudential, and IBM Technical. CW16 reported that each had outstanding receivables, with MetLife’s dating as far back as 1999.

Confidential Witness #17 ("CW17") is a former Adecco Collections Department employee. CW17 handled 5-6 customers that owed Adecco money for temporary employment placements. CW17’s job was to try to collect payments from these companies, which included St. Paul Insurance, AIG, CitiMortgage, and Excel Shipping & Logistics. Each of these accounts had outstanding balances, estimated to be in the tens of thousands of dollars. The outstanding receivables on all these accounts went back 3-4 years to the 1999-2000 timeframe. CW17 confirmed that MetLife and IBM were two other customer accounts that had even larger outstanding receivables in the very high tens of thousands of dollars to over $100,000.00. CW17 reported that in 2003 there was a big audit, going on, that included detailed reviews of customer accounts with outstanding receivables. The audit was conducted by EY and included auditors from EY’s Switzerland offices. EY was conducting its audit work in the basement of Adecco’s Melville, New York headquarters. During the audit, accounting managers were supposed to review customer information and explain why the customer accounts had past due receivables that had not yet been paid.

OVERVIEW OF THE FRAUD

The Swiss Federal Banking Commission ("FBC") has instituted a formal investigation into insider trading in the securities of Adecco in advance of the Company’s January 12, 2004 announcement that Adecco’s 2003 year-end financial results would be delayed. Prior to the January 12, 2004 announcement, one of the Company’s largest shareholders, KJ Jacobs AG, which is controlled by the Company’s founder, defendant Jacobs and other insiders, sold Adecco common stock. During December 2003, KJ Jacobs AG sold approximately 80,000 shares of Adecco common stock and transferred, by way of gift, over 6 million shares of Adecco common stock. Following Adecco’s January 12, 2004 announcement, the Company’s stock experienced a one-day drop of over $5 per share from nearly $17 per share to slightly less than $12 per share. This one-day drop
resulted in more than a 30% decrease in the Company's market capitalization. The above-referenced KJ Jacobs AG's Adecco shares, which were sold or transferred only weeks before the Company's devastating public announcement concerning its accounting problems, were worth over $132 million less after January 12, 2004. KJ Jacobs AG, likewise, sold $196 million worth of Adecco stock on February 9, 2001. This sale occurred at approximately the same time defendant Weber attended a meeting at North American headquarters where the receivables issue was discussed as a major concern for Swiss headquarters.

54. According to CW1, throughout the Class Period, defendants caused Adecco to materially understate the Company's bad debt expenses by allocating new cash to old accounts receivable. In early 2003, EY, the Company's newly engaged independent auditor, which had recently replaced Arthur Andersen, warned defendants that this process must be corrected by year-end 2003. Despite this warning, the misallocation of current cash receipts continued during 2003 and was fraudulently concealed from investors. As the year-end approached, defendants realized that this practice could no longer be continued, as EY, unlike Arthur Andersen, the Company's prior auditor, would not allow the lead auditor, M. Mike Sills, to sign off on this improper accounting scheme.

55. The filing of Adecco's year-end financial statements was delayed as a result of the Company's new auditor's reaction to material weaknesses in the Company's accounting controls relating to IT Systems Security, reconciliation of payroll bank accounts, application of accounts receivable, and several issues affecting revenue recognition, including lack of systematic documentation of agreed rates and hours, billing errors not timely identified and corrected, and lack of segregation of duties in the branches – increasing the likelihood of undetected errors. This lack of accounting controls resulted in the improper application of accounts receivable and a material understatement of the Company's uncollectible accounts, resulting in overstated earnings during the Class Period.

56. This problem was known or recklessly disregarded by each of the defendants at the beginning of the Class Period. According to CW1 and CW8 Adecco, since its acquisition of Olsten in 2000, had been utterly unable to efficiently collect its outstanding North American accounts
receivable resulting from the Olsten acquisition. Adecco’s North American operations accounted for
approximately 24% of the Company’s revenue for fiscal year-end 2003. This problem was so
pervasive that it ultimately resulted in the delayed filing of Adecco’s 2003 year-end financial results.

57. Prior to the Company’s devastating public announcement that Adecco would be
forced to delay the filing of its 2003 year-end financials due to weakness in internal accounting
controls, defendants selectively released information and/or improperly traded Adecco shares based
upon this material, non-public information. This conduct lead to investigations by the FBC, the DOJ
and the SEC and resulted in the resignation of Bowmer in June 2004.

58. The SEC expanded its investigation of Adecco to include State Unemployment Tax
Act ("SUTA") dumping as well as other accounting issues. According to people familiar with the
probe, the SEC is examining whether Adecco’s U.S. unit used SUTA dumping to illegally
misrepresent its financial statements by fraudulently avoiding its full state unemployment tax
burden. SUTA is a federal law that along with another statute directs each state to set up
unemployment funds with taxes collected from employers. The unemployment taxes that each state
levies vary, but generally a company with a high layoff rate during economic downturns pays about
4% of taxable employee wages a year; companies with little turnover can pay less than 1%. States
use the revenue to pay unemployment benefits. A company with a history of significant layoffs can
dodge its unemployment tax responsibility by creating a new corporate entity with no layoff history
and than transferring current employees to the new entity so it will qualify for a lower tax rate.

59. On June 28, 2004, after expending approximately $120 million to pay for an
investigation of the Company’s accounting controls by its independent auditor and an outside law
firm, Adecco finally filed its 2003 financial results with the SEC. This investigation, however, failed
to include any re-audit of the Company’s 2000 or 2001 financial statements.

THE OLSTEN ACQUISITION REVEALED PERVERSIVE PROBLEMS WITH AGING
NORTH AMERICAN RECEIVABLES IN BOTH ADECCO AND OLSTEN

60. CW1, who had been an executive with Adecco in North America since 1996, helped
negotiate the Olsten-Adecco merger, which closed in March 2000. Although CW1 was not involved
in reviewing Olsten’s financials as part of Adecco’s due diligence for the merger, as a result of
CW1’s involvement in the merger negotiations, CW1 knew that Olsten had done a poor job in keeping on top of its receivables and collections. As a result, even though CW1 had not conducted the actual due diligence, CW1 stated that Olsten had millions in outstanding account receivables at the time of the merger.

61. Part of the reason that Adecco acquired Olsten was for its operating system, and so Adecco converted from its legacy systems over to Olsten’s system. According to CW5 and CW14, the complete conversion from Adecco’s old systems to the Olsten system took over a year to complete, between approximately August 2000 and September 2001. As a result of the system changeover, Adecco discovered significant old accounts receivable on Adecco’s own customer accounts as well as those of Olsten.

62. CW8, CW11 and CW9 all corroborated CW1’s account: Following the takeover of Olsten by Adecco in 2000, Adecco’s North American operation’s aging accounts receivables skyrocketed because the combined companies had hundreds of thousands of customer accounts nationwide and each customer relationship varied from the next on billing rates and payments terms.

DEFENDANTS’ SCHEME TO DEFRAUD

63. Following the takeover of Olsten by Adecco in 2000, and the conversion of the systems, Adecco’s North American operation’s aging Accounts Receivables skyrocketed because the combined companies had hundreds of thousands of customer accounts nationwide and each customer relationship varied from the next on billing rates and payments terms. Adecco North America accounted for approximately 28% of Adecco, S.A.’s worldwide revenue in 2001 (27% in 2002 and 24% in 2003). Additionally, the North American operations allowance for doubtful accounts was €32 million, €30 million and €25 million in 2001, 2002 and 2003, (28%, 26% and 24% of the entire company, respectively). The allowance for doubtful accounts was a significant issue for Adecco. According to CW1, the reserve was reevaluated monthly at corporate headquarters. According to CW17, EY, during its 2003 audit, specifically reviewed customers with large outstanding receivables. Increasing the allowance for doubtful accounts by tens or hundreds of millions of dollars would have materially impacted the Company earnings—particularly in the North American operation. Moreover, it also would have revealed that the merger was not what it had
been represented to be. According to CW1, other senior managers recognized that a higher reserve
would reduce operating profits and bonuses and argued that the reserve should be lowered.

64. Thus, after the acquisition, it became clear that Adecco was confronted with a
plethora of bad receivables in its North American operations, which Adecco should have written off.
The bad receivables totaled at least in the tens, if not the hundreds, of millions of dollars. Rather
than acknowledge the extensive problems and accurately reporting the financial results of the
Company, defendants chose to cover-up the problem with a variety of manipulations.

APPLICATION OF CURRENT CASH RECEIPTS TO OLD ACCOUNTS RECEIVABLE

65. According to CW1, in order to address the massive uncollected receivables discussed
above without having to write them off, current cash receipts were applied to old accounts
receivable. Accountants in the Cash Application division of the Corporate Accounts Receivable
Department in Melville, New York, were responsible for applying cash received to each customer
account. During the Class Period these accountants improperly applied new cash receipts, which
were intended to satisfy recent customer invoices, to the same customers’ old outstanding
receivables.

66. This improper cash application practice was well known throughout the Company.
According to CW1, this practice was improper under GAAP, as it resulted in a misstatement of
receivables and bad debt. According to CW11, former North American CFO Mark Eaton – who
regularly communicated with Adecco’s Treasurer, Patrick Dobler, who reported directly to Weber–
was aware that there was a problem with Olsten’s receivables at the time of the acquisition and with
Adecco’s receivables following the 2000-2001 system conversion. Additionally, Weber attended a
meeting at the Company’s Melville, New York, North America headquarters, where this problem
was discussed as a significant concern for Swiss headquarters. Eaton tried to address the misapplied
cash receipts problem while he was still CFO of North America and had put a plan in place to
address it. The plan was to hire a number of temporary employees to work through the aged
accounts, apply cash appropriately, and reconcile those accounts to closure.

67. According to CW11, as of May 2001, the aggregate unapplied payments figure was in
the tens of millions of dollars and was estimated by one former executive to be in the $40 million
range. According to CW1, after Eaton transferred to the Swiss headquarters in late 2001 or early 2002, a group of senior accountants that had worked under him had the accounting oversight responsibility until a new CFO came on board, which did not happen until late 2002. During the first nine months of 2002, Adecco’s North American operations had no acting CFO.

68. Based upon an investigation conducted by its auditor and law firm, Paul Weiss, at a cost of over $120 million, Adecco has specifically admitted the existence of certain material weaknesses and significant deficiencies in the internal controls of the Adecco group. These material weaknesses which are described, in part, above, allowed Adecco’s financial statements to be materially misstated during the Class Period.

69. According to CW11, Adecco’s North American operations did not have an automatic system in place at the corporate office to match payments received from customers to the corresponding invoices (accounts receivable). Therefore, matching was done manually at the corporate office. In theory, the payment collection and application process should have operated as follows: Adecco customers sent their payments to lock boxes located at three or four bank locations in different regions of the U.S. The lock boxes were essentially post office boxes located at the banks. When a customer sent its payment with the invoice to the lock box address in its region, which was printed on the invoice, the bank deposited the check, recorded the check amount, the check number and the invoice number into the bank’s accounts receivable computer system. Thereafter, the bank issued a credit to Adecco’s bank account in the amount of the customer’s payment and forwarded copies of the check and invoice to Adecco’s Accounts Receivable Department to record in Adecco’s books. An Accounts Receivable Manager was in charge of receiving and ensuring proper application of customer payments to the correct invoices. Accounts receivable received several envelopes containing customer remittances from the banks each day, which were called “batches,” and recorded the remittances that cross-referenced a particular invoice number to that specific receivable in the books.

70. According to CW11, because Adecco did not have an automatic system in place to match payments to the proper invoice, payments were often manually credited to the wrong invoice. When this happened, many customers said they had already paid the outstanding amount and refused
to pay the new invoice until Adecco "got its act together." Customers put the burden back on
Adecco to accurately determine what the correct outstanding amount was before the customer would
agree to pay any additional money. This compounded the problems with uncollected receivables.
Adecco’s inability and failure to match customer payments to the proper invoices occurred with
payments received from the majority of Adecco’s North American customers. Consequently, this
difficulty had a huge impact on the Company.

71. According to CW11, during 2000 and 2001, the Company had millions of dollars in
bad debt that it could not collect from customers that had declared bankruptcy, become insolvent or
were otherwise unable to pay bills. The combination of millions of dollars in uncollectible debt and
the amount that customers refused to pay because of Adecco’s billing issues resulted in hundreds of

72. According, to CW9, before the Olsten acquisition, Adecco billed its customers by
sending customer invoices with the placed employees’ time cards attached. This “match and
attach” process was done in order to send an invoice to the customer with the time card to
substantiate the amount for which the customer was billed. Olsten utilized a different process before
the merger. As a result, many of the inherited Olsten customers would not honor agreements to pay
because the invoices lacked customary support.

73. According to CW9, outstanding and uncollected receivables remained on Adecco’s
books for two years after Olsten was acquired, between 2000 and 2002. In 2002, Adecco finally
began writing off these receivables that had been on its books for more than 90 days. Prior to 2002,
some receivables had remained on its books for two years. Senior Adecco executives routinely
discussed this pervasive problem.

PAYMENT MATCHING AND COLLECTIONS PROBLEMS CAUSED LIQUIDITY
PROBLEMS

74. According to CW11, Adecco’s North American operations had cash shortages on a
fairly regular basis, meaning that the money coming in was not enough to cover the payments going
out. This was mainly due to the uncollected receivables problem. A typical transaction cycle should
have been for Adecco to fill a job position for a customer and bill the customer, and then for the
customer to receive the employee and pay the bill. However, for the reasons outlined above, there
were delays in the customer payment leg of this process and, at times, outright non-payment
problems. Adecco's treasury tried as hard as possible to forecast future cash needs and cash
expected to come in and to communicate regularly (weekly) with accounts receivable, accounts
payable and Credit Managers on actual receivables, payables and credit needs in order to stay on top
of North America's liquidity. However, due to delayed customer payments and uncollectible
payments, liquidity concerns were constant.

75. According to CW11, when the collections problems led to liquidity shortages in
Adecco's North American operations, three different means of obtaining the cash needed to cover
short-term expenses were employed: short-term bank loans, short-term loans from the Company's
Swiss headquarters, and liquidation of investments. Adecco took short-term bank loans, often in the
form of lines of credit, when its cash needs were less than millions of dollars. When the North
American operations needed millions of dollars to cover expenses, money was borrowed from Swiss
headquarters. Loans from the parent company typically were for a duration of two weeks to a month
and ranged from a couple million dollars to $10 million, or more, on average. In fact, in 2001 the
problem was so pervasive that by the third quarter of 2001, short term debt comprised over 44% of
Adecco's total debt, whereas at year-end 2002 and 2003, short-term debt comprised only 14.6% and
18.6%, respectively.

JANUARY 2004 PUBLIC DISCLOSURES PROMPTED BY EARLY 2003 AUDITOR
CONCERNS

76. According to CW1, Adecco switched its auditors in late 2002 from Arthur Andersen
to EY because of Andersen's dissolution in the wake of the Enron accounting fraud. The accounting
issues disclosed in January 2004, were discussed with EY around January 2003, when the new EY
auditors did their first report on Adecco's 2002 results. EY's auditors raised skepticism about the
application of current cash receipts to old accounts receivable, at that time, and told defendants that
Adecco needed to resolve the issue and properly reflect bad debt by year-end 2003. When EY began
its year-end audit information gathering process in late 2003, it told Adecco senior management that
it was not comfortable issuing an independent auditors’ report with the accounts receivables issues still unresolved.

77. According to CW1, while Andersen was still Adecco’s outside auditor, Mark Eaton was the primary North American contact with Andersen (at least until Eaton transferred to the Swiss headquarters in late 2001/early 2002). Eaton was himself an ex-Andersen accountant.

78. According to CW1, Adecco had a National Accounts group in the Melville, New York headquarters. The National Accounts group was responsible for negotiating agreements with designated national account customers that insisted on establishing flat billing rates (typically lower than billing rates with customers that were set on a placement-by-placement basis) for each category of employment position they used Adecco to fill.¹ Adecco established special “national account” codes that were supposed to be used at the branch level nationwide to ensure the contractual pricing was applied on all placements with that customer. But the branches did not always input placements into the computer system using the national account code for these customers, and, instead, negotiated different (higher) billing rates with the specific customer representative with whom they were dealing. This inconsistent application of the national account codes at the branch level created revenue recognition inaccuracies (inflated revenues) and consequently led to outstanding accounts receivables problems. For example, when a sales representative or recruiter did not use the national account code to enter a job order into the computer system for a designated national account, the mark-up on the billing rate (difference between pay rate and billing rate) ended up higher than what the customer agreed to pay under the national account contract terms, which would thereby artificially inflate recorded revenues.

¹ National account status was based on customer demands for standardized rates and mark-up for specific positions that Adecco filled for the customer nationwide. National account status was not tied to the amount of revenues a particular customer generated for Adecco.
DOWN-CODING OF WORKERS' COMPENSATION CLASSIFICATIONS TO DECREASE PLACEMENT EXPENSES AND TO ARTIFICIALLY INCREASE PROFIT MARGIN

79. According to CW1, during the Class Period, Adecco North America employment candidate positions were improperly classified or coded for workers' compensation purposes as lower level positions than they actually were. This practice lowered the workers' compensation payments the Company had to make to state authorities and thereby allowed Adecco to improve its reported gross margins, which in turn increased managers' bonuses.

80. According to CW6, temporary placements at warehouses usually earned Adecco a 25% profit margin. The employees in the industrial sector, who worked in manufacturing, electrical assembly and the like, usually earned Adecco a 30% profit margin. The temporary employees who did clerical or secretarial work typically earned Adecco a 28% to 38% profit margin. Adecco's customers were billed weekly because the temporary employees were paid weekly.

81. According to CW6, another way in which Adecco fraudulently increased its profit margin was by manipulating the workers' compensation code for designated workers so that the burden to the Company would be lower. The burden included various costs (including workers' compensation, insurance, benefits and the like) associated with staffing a candidate at a customer's company. Workers' compensation codes for a staffed employee were often changed in order to reduce the Federal Insurance Contribution Act ("FICA") costs and thereby increase Adecco's profit margin. For example, for workers' compensation purposes, a receptionist with secretarial skills could be categorized as a clerical employee, as opposed to an administrative employee. Adecco's FICA costs for clerical employees were lower than those for administrative employees. Thus, by staffing an administrative employee at the customer company to perform administrative duties, but categorizing that employee for FICA purposes as a clerical employee, Adecco increased its profit margin by paying the cheaper costs associated with a clerical staff member. This manipulation of the categorization of a placed employee would likely be discovered if the employee filed a workers' compensation claim. If an improperly categorized administrative employee were injured while engaging in administrative duties, the parties would discover Adecco's manipulation to increase its profit margin.
FALSE REPORTING OF EMPLOYEE MARITAL STATUS AND DEPENDENTS TO INFLATE CUSTOMER BILLING

82. According to CW1, Adecco intentionally changed employment candidates’ marital status and the number of dependents when providing candidate information to its customers, in order to make the customers believe that the Company had to pay higher insurance rates for these employees and thereby justify to customers increasing the employees’ hourly billing rates.

AGED TRIAL BALANCE REPORTS WERE CONSISTENTLY INACCURATE DEMONSTRATING LACK OF INTERNAL CONTROLS

83. According to CW6, Adecco’s corporate offices in Melville, New York prepared a weekly Aged Trial Balance ("ATB") Report, which tracked the aging for the Company’s outstanding receivables. The ATB reports were distributed regionally and locally to the area Vice Presidents and branch managers. The ATB report indicated the name of the client, the invoice number, the amount due, and the number of days the invoice had been outstanding (i.e., 30, 60, 90 days old and over). It is important for a company to identify which receivables have been outstanding for the longest period of time because the older a receivable gets, the less likely it is to be paid at all.

84. According to CW6, the ATB reports were consistently inaccurate. The ATB reports were supposed to accurately reflect the number of days that the customer’s invoices had been outstanding (for 30, 60, 90 or 120 days). However, the ATB report repeatedly identified customers as being late when these customers had made timely payments. When a report was received indicating that a customer’s account was overdue, a branch manager contacted the customer to inform them about the amount past due. Customers were typically called when the ATB report indicated they were between 30 and 60 days late. Approximately 50% of the customers contacted by one manager regarding overdue bills indicated that the payments had already been sent to Adecco’s corporate offices on time.

85. According to CW1, Adecco’s branch offices were not directly responsible for tracking accounts receivable and cash applications through receivables. Cash Applications and the Corporate Accounts Receivable Department in Melville, New York, were responsible for these functions. However, following the discovery of the Olsten accounts receivable problem and the Adecco accounts receivable problem, the Melville, New York, corporate office delegated to the
hundreds of branch offices the actual collection function because the problems were so pervasive.

Corporate put various incentives in place at the branch level to encourage collecting on old accounts receivable more quickly.

86. According to CW1, *Aged Trial Balance Reports* and weekly *Flash Reports* did not match branch-level records of customer accounts receivables and payments. These discrepancies likely occurred because the Cash Application division was applying current cash to old accounts receivables.

ADECCO FABRICATED A REPORT CONCERNING ITS BAD RECEIVABLES

87. According to CW7, Adecco’s corporate offices in Melville, New York, prepared a monthly report regarding Adecco’s monthly write-offs of bad receivables. The report identified the top 100 customers with the largest outstanding receivables written off by Adecco in that month. Nonetheless, these reports were completely false as Adecco did not even have a system in place in which they could determine this information. Despite not having the resources to obtain this information, Adecco had this report prepared month after month based upon no supporting evidence. Julio Arietta, President of Adecco North America and other top officials at the Company, were made aware of the fact that this report contained false information.

ADECCO’S ACCOUNTS PAYABLE

88. According to CW6, Adecco received vendor invoices for typical costs such as utilities and phone bills. Vendor invoices were sent directly to each branch. When the bill was received, it usually was immediately stamped with a general ledger (“GL”) code and sent to corporate. All bills were mailed once a week to Adecco’s North American corporate Accounts Payable department for payment.

89. According to CW6, however, if one of the branches was having a bad month financially, the branch would wait until the following month to stamp the bill with a GL code and send it to the corporate Accounts Payable department. The purpose of waiting until the next month was to ensure that the bill would not appear on the current month’s Profit & Loss statement, which already indicated a bad financial month. Thus, a branch would hold on to the bill until the following month, even if the bill would end up being paid late.
FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

90. As a result of defendants' scheme to defraud, as described herein, each of the following statements regarding Adecco's financial condition was rendered false and misleading, as each failed to disclose that the Company's 2000 and 2001 financial statements were in fact false because they failed to properly take allowances for doubtful accounts, and also failed to properly record revenues.

91. On March 16, 2000, the Company issued a press release entitled “Adecco SA Begins Trading on New York Stock Exchange.” The press release stated in part:

Adecco SA, the world’s largest personnel services company, began trading this morning on the New York Stock Exchange. In ceremonies to mark the occasion, Adecco senior managers rang the Opening Bell to officially start the trading day.

Adecco SA, whose common shares trade on the Swiss Exchange (ADEN 700’939) and the Bourse de Paris (RM 12819), will trade American Depositary Shares (ADSs) on the NYSE. Adecco's ADSs were delisted from NASDAQ at the close of business on March 15.

The NYSE listing comes a day after the official close of the merger of Adecco with the staffing and information technology services businesses of Olsten Corporation. The merger strengthens Adecco’s position as the number one personnel services company not only in the world, but now also in North America, which is the world’s largest market, and in the global information technology services market.

Adecco’s Chief Executive Officer John Bowmer commented that “Since Adecco is the world’s largest personnel services company, it’s only natural to join the other 3,000 market leaders that trade on the world’s largest and most respected equities market. We see this new partnership with the NYSE as a powerful combination that will benefit our shareholders, clients, and employees.”

92. On April 19, 2000, the Company issued a press release entitled “Adecco SA Reports 49% Operating Profit Increase in First Quarter 2000.” The press release stated in part:

Adecco SA, the world’s leading provider of personnel services today announced another set of excellent results for its first quarter 2000, highlighting the continuing success of its global growth strategy.

Adecco’s first quarter 2000 unaudited results included net service revenues of CHF 5.1 billion, a 38% increase over the CHF 3.7 billion reported in the first quarter of 1999. Apart from a strong organic growth, the first quarter 2000 results benefited from an 8% currency translation impact in revenues, as a result of the appreciation of the US dollar, the British pound, and the Australian dollar against the Swiss franc.

At constant rates, first quarter revenues increased 30% compared to last year's first quarter. Adecco posted strong operating income growth of 49% rising from CHF 134 million in the first quarter last year to CHF 200 million during the same period this year. Operating margins increased substantially by approximately 30 basis points from 3.6% in the first quarter of 1999 to 3.9% in 2000. Income before
amortization of goodwill for the quarter was CHF 124 million, a 54% improvement over the CHF 80 million earned in first quarter of 1999.

After eliminating the currency translation impact, organic revenue growth was 19% and organic operating income growth was 24%.

"We have started the year 2000 with an extremely strong performance," said John Bowmer, Adecco's CEO. "This result was not only due to the contribution of our 1999 acquisitions, which are now fully integrated adding about 11% to our top line growth and 15% to the operating profit growth, but also as a result of substantial organic growth in this first quarter. Operating margins jumped around 30 basis points in response to our cost and account management strategy worldwide. We continue to move towards our medium term goal of a 5% operating margin. Despite the recent downturn in IT, we are optimistic that the IT staffing and service business, which, on a like-for-like basis, is now growing month on month, will end the year comfortably above 1999. These are symptoms of a healthy year ahead.”

93. In the April 19, 2000 press release, defendant Bowmer stated:

The integration of Olsten will be our greatest challenge in the year 2000. I truly believe our management team is very well prepared to succeed using the experience of our earlier major successful integrations. The management teams are in place and our plans are well advanced. As in the Adia/ECCO and TAD mergers, we will incur integration costs and some synergies this year. The full benefits will thus be seen in the year 2001.

In fact, the receivable problems undercut any possibility of benefit to Adecco's financial picture.

94. On July 31, 2000, the Company issued a press release entitled “Adecco SA Reports 49% Increase in Operating Income For First Half of 2000.” The press release stated in part:

Adecco SA, the world’s leading provider of personnel services, today announced its results for the half-year ended July 2, 2000. Revenues and profits reflected a further strong organic growth, reinforced by the addition of Olsten as from April 3, 2000. Combined, revenues increased year-to-date by 45% and operating income by 49%.

Adecco revenues for the first half were CHF 12.1 billion, 45% above last year's CHF 8.3 billion for the same period with the now consolidated Olsten contributing approximately CHF 1.3 billion to this growth. At constant exchange rates, the revenue growth was 39%, reflecting a 6% positive currency translation impact. This was caused by the appreciation of the US dollar, the British pound, the Japanese yen and the Canadian dollar, partly offset by a lower Euro against the Swiss franc.

Six-month operating income posted a 49% gain over the same period last year, rising to CHF 510 million from CHF 342 million. The operating margin increased from 4.1% to 4.2% despite CHF 35 million of merger-related integration expenses, which are included in operating expenses. Excluding these one-time costs, margins increased 40 basis points to 4.5%.

"We are extremely pleased with these results," said John Bowmer, Adecco's CEO. "We continue to experience strong growth and have further enhanced our operating margin whilst aggressively merging Adecco and Olsten operations. Since the closing of the deal in mid-March, teams around the world have worked
on the integration with well-prepared plans. We are on track to meet or exceed our expectations. Management of all operations is now fully integrated. In the US, the headquarters have been moved to the former Olsten head office in Melville, the IT system conversion started in May and the new, combined organization is in place. The merger of the joint IT and Accounting business is substantially completed, the 150 French branches of Olsten have been converted to the Adecco IT system, and the integration of the South American operations is close to completion. This fast combination of the two organizations makes us optimistic that synergies will exceed the costs of integration in the fourth quarter of 2000. The main cost synergies will accrue next year, as we expect the integration to be fully complete by the end of the first quarter 2001.”

95. Adecco’s 2000 half-year report, which was signed by defendant Bowmer, stated: “An equal focus upon expanding existing core business and completion of the strategic Olsten Corporation acquisition has delivered a fundamentally strong financial performance in the first half of 2000 and an excellent platform for sustained growth.”

96. Finally, the 2000 half-year report reported that the Olsten “integration process continues to run smoothly, on schedule and at a fast pace.” The report continued:

The conversion of Adecco IT systems to the Olsten platform started in May, and is progressing without major issues. The front office system conversion started in July 2000. The transfer of the North America head office from Redwood City, California to Olsten’s former head office in Melville, New York should be completed no later than first quarter 2001.

At the end of the first half of 2000, the IT and the Accounting sectors of Adecco and Olsten had been successfully merged. Starting in July 2000, synergies and cost savings derived from these segments are expected to total over CHF 30 million for the following twelve months.

97. On October 26, 2000, the Company issued a press release entitled “Adecco SA Reports a 46% Increase in Sales for the First Nine Months of 2000; Operating Income Increased by 49%.” The press release stated in part:

Adecco SA, the world's leading provider of personnel services, today announced strong financial results for the first nine months of 2000 that once again confirm the effectiveness of the company's global growth strategy.

Adecco's unaudited results for the nine-month period of 2000 include revenues of CHF 19.4 billion, a 46% increase over the CHF 13.3 billion reported in the corresponding nine-month period of 1999. Approximately 20% of total revenue growth was organic. Operating income for the first nine months grew strongly from CHF 603 million in 1999 to CHF 900 million this year, a 49% increase of which 25% was organic. Operating margin increased by over 10 basis points from 4.5% to 4.6% despite cumulated CHF 44 million integration costs for the Olsten acquisition, which were recorded as ordinary operating expenses. Income before amortization of goodwill and restructuring charges was CHF 549 million in the first nine months of 2000, a 44% increase over the CHF 382 million achieved in the same period of 1999.
Year-to-date, Adecco has marginally benefited from currency impact. Currency fluctuations had a 6% positive impact on revenues and operating income. However, the appreciation of the US dollar against the Swiss franc continued to adversely affect interest charges partially offsetting the positive impact of currency fluctuations on income before amortization of goodwill and restructuring charges. Net currency impact on income before amortization of goodwill and restructuring charges was a positive 1.5% or CHF 8 million.

Minor additional restructuring charges of CHF 1.7 million were incurred in the third quarter, mainly related to the relocation of the Adecco head office in Germany.

“Our nine-month results were again excellent,” said John Bowmer, Adecco’s Chief Executive Officer. “Despite integration costs of CHF 44 million incurred during the first nine months, our operating income continued to grow faster than revenues, increasing our operating margin by 10 basis points. Excluding Olsten integration costs, which were recorded as ordinary operating expenses, we would have achieved a 4.9% operating margin.

Representing 13% of total Group revenues, Specialty brands contributed CHF 2.6 billion to the nine months results this year, a 33% growth over last year’s nine months. The accounting/finance and career management business segments that were the major drivers, posted strong revenue increases of over 40% and 30% respectively, each with a corresponding major increase in profitability. This growth helped to alleviate the impact of the still sluggish recovery of the IT business. We have clearly been able to offset this disappointment because of the geographic and product diversity of Adecco.

On January 30, 2001, the Company issued a press release entitled “Adecco SA Reports 44% Increase in Revenues and 49% Increase in Operating Income for 2000.” The press release stated in part:

Adecco SA, the world’s leading provider of personnel services, today announced strong financial results for the fiscal year 2000. Year-over-year, revenues increased by 44% to CHF 26.6 billion, operating income by 49% to CHF 1.2 billion and income before amortization and restructuring charges by 42% to CHF 746 million. Since 1996, when Adia and Ecco merged to form Adecco, the company has demonstrated outstanding growth. Revenues and income before amortization and restructuring charges have increased more than fourfold during this period.

In these five years, Adecco became the undisputed world leader in the staffing industry through a strategy combining organic growth with mergers and acquisitions. Today, Adecco has attained a number one or number two position in 11 of the world’s 13 largest regions, which account for over 95% of the world market.

Key figures as reported for the year show strong growth of the total business, both organically and through mergers and acquisitions. These results are in line with Adecco’s multi-year strategy to grow organically 50% faster than the market, supplemented by external growth equivalent to 50% of organic revenue growth.

Year-over-year, operating margin improved by 10 basis points from 4.5% to 4.6% despite the incursion of approximately CHF 55 million one-time integration expenses as a part of our ordinary operating expenses. These expenses were incurred
to secure fast and complete merger integration during last year. Excluding these non-recurring integration expenses, the operating margin increased to over 4.8%, close to Adecco's 2003 target of 5%. As in the first three quarters of 2000, the impact of currency exchange rate movements was minimal with 4% on sales and approximately 2% on income before amortization and restructuring charges.

“'I'm absolutely delighted with our results in 2000,” said John Bowmer, Adecco's Chief Executive Officer. “In this challenging year, we managed to grow our business organically while completing the largest merger ever in our industry within 12 months. This major and complex merger with Olsten is scheduled for completion by the end of the first quarter 2001. The new North America headquarters close to New York is fully operational with only a handful of staff left in the old California headquarters, the IT system integration is finished and the management restructuring finalized. We now have a stronger than ever company to serve our clients better. The financial results of this excellent year were far beyond expectations, and I congratulate the Adecco team worldwide for their commitment, initiative and drive to excel and be the best. This dedication has allowed us not only to merge with Olsten, but to concurrently achieve strong organic growth and enhance our operating margin. These figures demonstrate that we are on the right track to achieve our ambitious goals over the next few years.”

99. In Adecco's 2000 Annual Report, defendant Bowmer stated:

I am pleased to report another year of excellent progress for Adecco, with strong results around the world and major strides in positioning the organisation for future success. A landmark in this past year, the merger with Olsten Corporation combined with strong organic growth reinforced our position as the undisputed leader in staffing services world-wide.

* * *

The CHF 65 million restructuring costs associated with the merger were lower than originally forecast and synergy cost savings of approximately CHF 80 million in a full year were realised by the fourth quarter of 2000.

* * *

Adecco is the leading consolidator in a fast coalescing global market. Our success in very speedily integrating large companies is a major competitive advantage. We have been able to continue organic growth faster than the market, while merging four large additions, TAD, Delphi, Career Staff and Olsten, along with smaller strategic companies. Mergers have given us critical mass together with geographic and product spread much quicker than pure organic growth. The successful combination of internal and external growth is unique in the staffing industry.

The addition of Olsten, by far the largest merger in our industry, has made Adecco the number one in both the T-staffing sector world-wide and in the North American staffing market. It has given us a strong position in Scandinavia and bolstered our position in Germany, France, the United Kingdom and South America. The integration will be completed ahead of time and on budget in the first quarter of 2001. We have single headquarters and common systems in all countries with merged operations. In the USA, the major integration where the two companies were of similar size, we closed down the Adecco headquarters in California and moved to
the Olsten head office on Long Island, New York, and rolled out the Olsten front office system through Adecco North America. The former will lead to major future cost savings and the latter has gained a couple of years and saved around US$50 million in IT development costs that we were preparing to incur. Overall, the Olsten merger will generate synergies of around CHF 100 million in a full year compared with the CHF 60 million we expected at completion on 1 April 2000.

The new Adecco North America head office in Melville, New York, is now fully operational and confirms the very good cultural fit between Adecco and Olsten.

On April 25, 2001, the Company issued a press release entitled “Adecco SA reports 38% operating income growth in the first quarter of 2001.” The press release stated in part:

Adecco SA, the global leader in personnel services, today reported its results for the first quarter ended April 1, 2001. Group revenues increased by 31% to CHF 6.7 billion in the first quarter of 2001. In local currency, revenues increased by 35%. Operating income grew faster than revenues at the rate of 38% to CHF 276 million, illustrating the company’s strategy geared towards the improvement of profits and margins in an environment characterized by lower growth. In local currency, operating income grew 42%. Income before amortization of goodwill increased by 30% to CHF 161 million. Exceptional one-time charges of CHF 15 million for write-downs of Internet company participations and CHF 8 million for the cumulative effect of accounting changes were recorded in the first quarter of 2001.

In local currency, revenues grew organically approximately 8% as management had anticipated in the beginning of the year. Focus on profitability improvement led to approximately 29% organic growth in operating income. While currency fluctuations contributed positively last year, they had a negative impact of approximately 4% on the consolidated results in the first quarter of 2001.

“Our performance in the first quarter was again very pleasing” comments John Bowmer, Adecco’s CEO. “We were able to increase our market share in a slower growing world market while at the same time increasing operating margins by 20 basis points by proactive cost management and improved product mix. We are confident that this improvement in our competitive position will pay off when markets rebound.”

Bowmer added: “We are now seeing synergies from the Olsten merger, as US profits are up considerably despite slowing market conditions . . . Increased profitability was also seen in Europe, led primarily by outstanding performances in Italy, Spain, Germany, and Switzerland. I am equally delighted with the performance at Lee Hecht Harrison, our Outplacement and Career Management brand, where first quarter profits are up over 60% against the same period in 2000.”

On July 26, 2001, the Company issued a press release entitled “Adecco SA reports 21% operating income growth for the first half of 2001.” The press release stated in part:

Adecco SA, the worldwide leader in personnel services, reported today results for the six months ended July 1, 2001. Group revenues increased by 15% to CHF 13.8 billion in the first half of 2001. In local currency, revenues increased by 17%. Operating income continued to grow faster than revenues rising to CHF 617 million
in the first half of 2001, a 21% growth over last year's figures for the same period. This increase reflected the company's continuing focus on profit growth and profit margin enhancements. In local currency, operating income grew 23%. Income before amortization of goodwill, restructuring costs and one-time items grew by 16% to CHF 367 million. Excluding the impact of the tax rate changes and the tax effect of one-time extraordinary charges, income before amortization of goodwill, restructuring costs and one-time items increased by 20%. Currency fluctuations had a 2% negative impact on consolidated results.

In local currency, revenues grew approximately 6% organically, while operating income grew approximately 18% organically.

The second quarter showed like-for-like revenue growth of 4% in local currency, reflecting the economic slowdown in particular in North America. Nevertheless, like-for-like operating profits increased by 11% in the second quarter in local currency. Like-for-like income before amortization of goodwill, restructuring costs and one-time items, i.e. excluding the impact of the tax rate changes and the tax effect of one-time extraordinary charges, grew by 15%.

"Our results show undeniable strength in light of the current global economic landscape", said John Bowmer, Adecco's CEO. "Despite markets weaker than a year ago, we managed to achieve double-digit revenue growth, while improving substantially group operating margins by 30 basis points. During the second quarter we experienced lower sales growth as the market slowed, but we maintained our margin growth. We continued building capacity to enable a swift response when the economic upturn takes place. By end of June, we had increased our branch capacity by about 10%, which will give us an excellent basis for the upturn."

"We posted double-digit revenue growth in 9 of the 12 main countries and continue to see substantial enhancements in profits and margins in most business units", commented Mr. Bowmer. "This results from the combined effect of synergies from the Olsten merger, the very positive development of the outplacement business and internal efficiency gains achieved through our cost management program. Operating margins increased throughout the regions..."

102. In Adecco’s 2001 half-year report, defendant Bowmer and other Company executives assured shareholders that the Olsten acquisition was faring well: “The combined effect of synergies from the Olsten merger and internal efficiency gains achieved through our cost management program led to further enhancements in operating margin from 4.2% to 4.5%.”

103. On October 24, 2001, the Company issued a press release entitled “Adecco SA Reports an 8% Increase in Revenues for the Nine Months of 2001.” The press release stated in part:

Adecco SA, the worldwide leader in personnel services, announced today its financial results for the nine months of 2001. Group revenues increased by 8% to CHF 20.9 billion and operating income grew by 7% to CHF 964 million. In local currency, revenues grew 10% and operating income increased by 9%, indicating a 2% negative impact of currency effects in the Group’s results. Income before amortization of goodwill, restructuring costs and one-time items grew by 5% to CHF
579 million. The Group reported a substantial operating cash-flow generation of CHF 675 million in the nine months.

In the third quarter, Group revenues contracted by 4% (2% in local currency), while operating income reduced by 11% (9% in local currency), reflecting the sharp decline in volume that took place during the third quarter in key markets, as well as sharper than expected contraction in North America. Due to lower interest rates and debt levels, the net income before amortization of goodwill, restructuring costs and one-time items contracted only by 9% (7% in local currency). The Group generated operating cash-flow of CHF 345 million in the quarter.

"We have moved into a period of lower growth rates and tough trading conditions, when only the best strategies will prevail", commented John Bowmer, Adecco's CEO. "We experienced a clear distinction between the business environment in the first half and the difficult conditions in the third quarter. We have managed to compensate most of the volume shortfall, while maintaining our branch infrastructure to be ready to capture the future opportunities. Obviously, we are well prepared for a challenging quarter ahead."

* * *

"The severe revenue contraction in North America is being addressed by sensible cost-containment. We exceeded the originally planned synergies from the Olsten acquisition, and gained market shares without compromising prices," said Mr. Bowmer.

104. On February 6, 2002, the Company issued a press release entitled "Adecco delivers outstanding 2001 results in a very challenging market." The press release stated in part:

Adecco SA, the worldwide leader in personnel services, announced today its financial results for the fiscal year 2001. Group revenues increased by 2% to CHF 27.2 billion, while operating income declined by 5% to CHF 1.2 billion. In local currency, revenues grew 5% and operating income declined by 2%, indicating a 3% negative currency impact on Adecco’s consolidated results. The company reported income before amortisation of goodwill, restructuring costs and one-time items of CHF 702 million, down 6% on last year’s figures (2% decline in local currency). The substantial operating cashflow generation of CHF 1.4 billion was in great extent used to repay debt and to invest in infrastructure.

In the fourth quarter, Group revenues contracted by 12% (7% contraction in local currency), while operating income was down 36% (down 32% in local currency), reflecting further volume decline in key markets. Income before amortisation of goodwill, restructuring costs and one-time items was down 37% (34% in local currency). The Group generated operating cash-flow of CHF 715 million in the fourth quarter.

"We are very pleased that the Group closed this challenging year with some top line growth and only a small decline in profit. As expected, volumes dropped substantially in the fourth quarter, as economies softened world-wide. Our operating margin fell by 30 basis points to 4.3% for the year, as slowing revenue outpaced even our pre-emptive cost reductions. This was mainly because we maintained our branch infrastructure ready for the rebound in our business," said John Bowmer, Adecco's CEO. "Slower growth required less working capital and we used the cash surplus to pay off debt and to upgrade branch equipment. We
start 2002 with an excellent cash position, well-equipped branches and a much enhanced debt structure."

105. Adecco’s 2001 Annual Report to the Company’s shareholders stated: “The balance sheet evolved in line with our business growth. Days sales outstanding remained at last year’s level, as a result of our strong focus on working capital management.”

106. On April 17, 2002, the Company issued a press release entitled “Adecco sees first signs of improvement in Europe and North America; Results for the first quarter ended March 31, 2002 in line with expectations.” The press release stated in part:

Adecco SA, the worldwide leader in HR solutions, announced today its results for the first quarter ended March 31, 2002. The company reported revenues of CHF 6.0 billion, down 11% on last year’s first quarter, and operating income of CHF 186 million, down 32% on first quarter 2001. In local currency, revenues were down 9% with an operating income decline of 31%, indicating a slightly unfavorable currency fluctuation impact on Adecco’s consolidated results. The company reported income before amortisation of intangibles and one-time items of CHF 101 million, down 38% on last year’s figures (36% decline in local currency).

“As expected this has been a difficult quarter, but we are very pleased that the declines in both sales and profits were similar to the fourth quarter 2001 level. This suggests that we have reached the low point of the economic downturn,” said John Bowmer, Adecco’s CEO. “We expanded our branch network in the first quarter and may build it further if the encouraging signs of improvement in North America and in Europe prove to be sustainable. The Ajilon division also saw some positive signs with substantially higher new contract wins in March compared to end of last year. Career Services remains a strong counter-cyclical business. Since, in recent weeks, sales are down less year over year in North America and in much of Europe, we feel confident that the worst of the downturn is past. We do however expect that the 2nd quarter will still be difficult, as we will compare the next quarter against a strong 2001 performance.”

107. On July 24, 2002, the Company issued a press release entitled “Adecco SA Reports Revenue Decline of 10% for the First Six Months of 2002; June Revenues, Down 2% in Local Currency, Show an Improving Trend.” The press release stated in part:

Adecco SA, the worldwide leader in HR solutions, today announced its results for the six months ended June 30, 2002.

The company reported revenues of CHF 12.4 billion and income before amortization of intangibles of CHF 201 million with an improving trend in the last month of the quarter. . . . As indicated above, currency fluctuations had a major adverse effect on sales and profit, in particular towards the end of the second quarter. In constant currency, revenues in June were nearly the same as last year, and the gap in operating income declined. In addition, the increased tax rate in 2002 compared to 2001 had a further adverse effect on results. On a like-for-like basis, income before amortization of intangibles declined by 32% in June, 45% in the quarter, and 39% in the first half of 2002.
"As we had anticipated, the second quarter results remained below those we reported in the strong second quarter 2001. In particular the permanent placement and the Ajilon Professional business did not yet recover, and adverse currency movements affected our overall results," said Jerome Caille, Adecco’s CEO. "On the other hand, we have seen positive trends in recent weeks. Adecco Staffing has closed the gap in temporary staff placements, the client base is above the 2001 level and sales in local currency are now only marginally below last year, while the US and French units’ sales were stronger than last year. Furthermore, we have continued to build our branch network while reducing costs. By the end of June, our branch network increased year over year by 300, while we simultaneously reduced headcount by 600. In the first half, we reduced our cost base in both Adecco Staffing and Ajilon Professional by approximately CHF 140 million in constant currency. Given the recent positive trends and the new management team now in place, I am confident of the future development of the business as the economy recovers.”

Defendant Caille also added: "We have been working successfully on what we can influence: our client-base, our candidate-base, the strengthening of our market positioning and the building of our internal organization."

108. On October 23, 2002, the Company issued a press release entitled “Adecco SA confirms improved trends in the third quarter; Adecco Staffing shows positive sales growth.” The press release stated in part:

Highlights:

- Positive growth in sales and market share gains in major markets for Adecco Staffing
- Gross margin stabilisation and even stronger recovery in Ajilon Professional’s gross margin
- Productivity improvement due to substantial cost reduction
- Reduction of Days Sales Outstanding by three days and generation of cash-flow from operating activities of CHF 288 million in the nine months
- Adecco well-positioned for current economic environment

Adecco SA, the worldwide leader in HR solutions, today announced its results for the three months ended September 29, 2002. Revenues for the third quarter were CHF 6.4 billion, 1% below the corresponding period of last year in local currency, and above last year in August and September, confirming a sequential quarter-over-quarter improving trend since the beginning of the year. In CHF, revenues were down 9%. Operating income was CHF 201 million, down 42% in CHF and 37% in local currency. Income before amortisation of intangibles was CHF 120 million for the third quarter, down 43% in CHF and 38% in local currency. In the quarter, unfavourable currency fluctuations negatively affected revenues and operating income by 8% and 5%, respectively.
For the nine months, the company reported revenues of CHF 18.8 billion, down 10% in CHF and 5% in local currency. Operating income of CHF 572 million was down 41% in CHF and 37% in local currency. Income before amortisation of intangibles was CHF 322 million for the nine months of 2002, down 44% in CHF and 40% in local currency.

“We are happy to see that Adecco Staffing is showing positive growth in the third quarter. We have achieved market share gains in major markets, while gross margins have stabilised for the Group and have recovered strongly in Ajilon, our professional staffing division. As we were able to maintain our branch network, while reducing our costs we achieved substantial productivity improvements. Our strategy of carefully building and managing our branch network will further strengthen our market position to increase market share and to increase sales in a recovery without major cost addition,” said Jérôme Caille, Adecco’s CEO.

109. On February 5, 2003, the Company issued a press release entitled “Adecco SA reports full year 2002 revenues of CHF 25.1 billion, income before amortisation of CHF 362 million, cash flow from operations of CHF 647 million and net debt reduction of CHF 553 million.” The press release stated in part:

Adecco SA, the global leader in HR Solutions today announced its results for the fiscal year ended December 29, 2002. Group revenues for the full year were CHF 25.1 billion, down 8% in CHF and down 3% in local currency. Operating income for the full-year was CHF 662 million, a decrease of 44% in CHF and of 40% in local currency compared to the same period a year ago. Income before amortisation amounted to CHF 362 million, a decline of 48% in CHF and of 44% in local currency over the same period last year. The Group generated cash-flow from operations of CHF 647 million and free cash-flow[1] of CHF 499 million. Net debt was reduced by CHF 553 million.


In the fourth quarter, the company reported revenues of CHF 6.3 billion, up 3% in local currency, and operating income of CHF 90 million, down 56% in local currency. Net income before amortisation was CHF 40 million, down 65% in local currency. Adecco increased bad debt expenses to 0.6% on sales due to a deterioration of credit quality. In addition, the Group recorded a special charge for workers compensation in the US, following a recent worsening of claim history, of CHF 32 million. Reorganisation charges for the quarter also affected the result. Due to the further appreciation of the Swiss Francs, there was a negative currency impact of 5% on revenues and of 2% on profits.

Jerome Caille, Chief Executive Officer, commented: “In a challenging year, we improved Group sales sequentially year over year from -9% in Q1, -5% in Q2, -1% in Q3 to +3% in Q4. We have reduced our cost base and reorganised our business, while preserving network capacity. We have over 5,800 branches, the largest network in the industry, which ideally positions us to maximise opportunities in all geographies and fully benefit from the upturn. We have thoroughly revised our business processes, so as to increase the efficiency of our front and back-offices. Adecco is well positioned to benefit in 2003 from the reorganisation work done in 2002.”
Felix Weber, Chief Financial Officer, added: "The Adecco Group's cash generation and strong balance sheet will enable us to continue to invest in future growth during challenging times. The free cash-flow generated this year provide leeway to invest in organic growth in the years to come, as well as in selected acquisitions supporting our strategy. The management of working capital, strengthened internal controls and the maintenance of a cost base, which balances long-term growth opportunities and short-term trading pressures remain priorities for the business."

Defendant Caille also stated: "The performance of the US team was particularly impressive in Q4 with Adecco Staffing US growing at 12%.”

110. Adecco’s 2002 year-end report maintained that “cost management initiatives are being driven [in part] through . . . reducing DSO (days of sales outstanding) and optimising purchasing processes.” With respect to the Company’s financial position and liquidity, the report stated: “Adecco’s strong focus on working capital management led to an improvement of cash collection of accounts receivables outstanding (DSO) between June 30, 2002 and December 30, 2001.”

111. In connection with the filing of Adecco’s 2002 20-F with the SEC on June 24, 2003, the Company stated:

There have been no significant changes in the Adecco Group's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Adecco Group completed its evaluation.

112. Additionally, in connection with this filing, defendant Caille, as the CEO, and defendant Weber, as the CFO, signed certifications pursuant to new requirements under the Sarbanes-Oxley Act of 2002. Per these certifications, signed on June 19, 2003, Caille and Weber both certified the following:

1. I have reviewed this annual report on Form 20-F of Adecco S.A.;
   * * *

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

113. Adecco's 2002 Annual Report to its Shareholders represented that the Company's IT System was operating effectively. The report stated: "The Adecco Group continues to strive to be the most innovative company in the industry with the lowest cost structure. Technology remains critical in this pursuit and we have invested heavily to ensure that we have the best systems in the industry."

114. The 2002 Annual Report also stated: "The IT solutions introduced over the last two years helped us to reduce Days Sales Outstanding by another four days, equivalent to CHF 200 million, in addition to measurable additional sales we could achieve thanks to these systems."

115. On April 15, 2003, the Company issued a press release, entitled "Adecco Staffing restores operational gearing," in which it stated:

Highlights:

- Group Sales down 6% at Euro 3.8 billion (up 2% in local currency); operating income before amortisation down 11% at Euro 113 million (unchanged from last year in local currency); NIBA[1] down 4% at Euro 65 million (up 7% in local currency)

- Group costs down 10% (-2% in local currency) due to tight cost control in all operational areas resulting in productivity improvements

- Operational gearing restored at Adecco Staffing demonstrated by growth in sales of 3% and growth in operating income before amortisation of 8%, all in local currency

- Net debt reduced by Euro 492 million year-over year, a reduction of 28%, to Euro 1.3 billion

- Ajilon achieves sequential sales growth against the last quarter for the first time in eight quarters

- LHH contributes 15% of group profit on just 2% of group sales

- Currency effects reduce reported sales, operating income before amortisation and NIBA by -8%, -11% and -11% respectively
Commenting on the results Jerome Caille, Adecco Group Chief Executive Officer said: "I am pleased with the results we have achieved this quarter. In particular, in the most important division, Adecco Staffing, we restored our operational gearing: sales growth of 3% in local currency was converted into a profit improvement of 8%. We have worked on what we could influence regardless of the economic environment: extending the client base from our network of 5,800 branches improving productivity and reducing costs at every level. We are strengthening the company with a focus on profitable sales growth and rollout of our new web-based technology."

116. The April 15, 2003 press release further stated with respect to operating costs: "Tight control over all other operating costs was also maintained. Bad debt provisions have normalized this quarter to 0.2% of sales, down from 0.6% of sales last quarter." Regarding net debt, the Company reported: "Net debt at the end of the quarter was Euro 1,291 million, including off-balance sheet debt. This represents a reduction of Euro 119 million during the quarter and a reduction of Euro 492 million or 28% from the level a year ago."

117. Finally, the April 15, 2003 press release stated: "For the three months ended March 30, 2003, the Adecco Group reported under US Generally Accepted Accounting Principles (US GAAP) revenues of Euro 3.8 billion, operating income of Euro 112 million, which includes Euro 1 million amortisation of intangibles and a net income of Euro 64 million."

118. During a conference call on April 15, 2003, defendant Weber assured analysts and investors that Adecco had "implemented even stronger controls at branch level of a collection of accounts receivable."

119. On the April, 15, 2003 conference call, an analyst named Grant Chem with UBS Warburg asserted that the U.S. branches of Adecco were "actually unprofitable at this stage." To this defendant Caille responded:

   Well, I think that this percentage has reduced a lot and in particular, as the amount of losses is very low. What I see today is that these branches enable us to go much faster than the markets and it brings us gross margin in absolute money, you know, and this is, I think, a fantastic opportunity for the Adecco US operations to build on this absolute gross margin improvement.

120. On July 23, 2003, the Company issued a press release entitled "Second quarter net income up 26% in EURO year over year, up 35% in Local Currency." The press release stated in part:

   Highlights:
Group Sales for the half year down 7% at EUR 7.9 billion (up 1% in local currency); operating income before amortisation down 2% at EUR 248 million (up 8% in local currency); NIBA [net income before amortisation] up 11% at EUR 152 million (up 21% in local currency)

Group operating costs for the second quarter down 15% (down 6% in local currency) due to continued tight cost control in all operational areas resulting in further productivity improvements

Operational gearing continues to improve at Group level in the second quarter demonstrated by growth in operating income before amortisation of 16% on unchanged revenues, all in local currency

Cash-flow generated from operations was EUR 185 million in the first half of 2003, tripled from EUR 66 million in the first half of 2002

Net debt reduced by EUR 672 million year-over year, a reduction of 36%, to EUR 1.2 billion

Ajilon narrowed the sales gap in the second quarter and improved profitability significantly

Under US GAAP operating income for the first half was EUR 246 million (EUR 252 million in 2002) and net income for the same period was EUR 150 million (EUR 136 million in 2002)

Currency effects reduced reported sales, operating income before amortisation and NIBA by 8%, 9% and 9% respectively in the second quarter

Commenting on the results Jérôme Caille, Adecco Group Chief Executive Officer, said:

"I am again pleased with the results we have achieved this quarter. We have extended the improvement in operational gearing achieved last quarter at Adecco Staffing to the whole Group, converting unchanged sales in local currency into an operating income improvement of 16%.

The economic environment remains very tough and sales growth is elusive but we have responded appropriately by extending the cost reductions begun in the first quarter. The good result this quarter has been achieved by the efforts of our outstanding team of colleagues throughout the world and I congratulate them on their hard work throughout these difficult market conditions."

Felix Weber, Adecco Group Chief Financial Officer, commented: “Strong operating cash flow of EUR 185 million tripled from the previous year and contributed to the reduction of net debt. Working capital was effectively managed and DSO was in this quarter maintained at 58 days compared to last year. We further reduced our cost base by 6% in local currency and improved productivity.”

ADECCO SA, the world’s largest provider of temporary workers, raised 750 million Swiss francs ($553 million) by selling bonds convertible into its shares. The proceeds will be used to strengthen the company’s capital base and its position outside Switzerland.

Glatthurg, Switzerland-based Adecco had debt at the end of June was [sic] 1.18 billion euros ($1.34 billion), 107 million euros less than three months before.

The bonds, which mature in 2013, won’t pay a coupon. Investors will be able to swap the bonds for stock when the shares rise 64 percent from the current price to 94.5 francs. The bond’s yield to maturity is 1.5 percent annually.

The company will buy the bonds back from investors at maturity of 116.05 percent of their face value. Investors can sell the bonds back to Adecco after seven years at a portion of the redemption price. The company can buy back the bonds after seven years on the same terms.

122. During a July 23, 2003 conference call, defendant Weber stated:

I am very happy that we have created again a very high cash flow. We have in our fourth year increased our cash flow from 66m to 185m and also in the last quarter we made 60% more cash flow than a year ago.

So it is very positive and we have all got again to finance our future business opportunities.

If I look to the cash flow in more detail, you have all the figures on your sheets, so we don’t have to read everything here. But looking in more detail at those elements you can see that the cash receivables has increased by 211m in the first half, mainly due to the increase of DSOs from fifty seven days from last year to sixty one days to date. However DSOs never reached year over year, have been unchanged at fifty eight days this year as in last year.

Accounts payable and accrued [inaudible] has increased by 188m during the quarter, which contributed to the financing of the higher accounts receivables. So what’s important is corresponding increases in accounts receivables and accounts payables are mostly due to the timing of cash receipt and payments due to the [inaudible] because of the [inaudible] for you to apply it to the natural end of the quarter. So that has an impact on the payable on the DSOs and also on the receivables so we should rather look at the year on year, than December to June.

* * *

Net debt has been reduced again. The continuing improved cash flow combined with the currency impact of the lower US dollar exchange rate has allowed us to reduce the net debt further. Including the balance sheet, the reduction is 226m since the end of last.

123. During the July 23, 2003 call, defendant Weber responded to an unidentified caller’s question about Adecco’s bad debt expenses as follows:
There are no bad debts anymore. All gone.

* * *

I mean what we do is we provision on the very normal way and we have no surprises and so are basically back to where we were earlier and we do not see today any reason to change it. If there is not a [inaudible] then we may have to look at it, but we were assured by the audit review that we did also for this quarter that our bad debt reserves at Adecco are in line in every country across the Group for the whole of the [inaudible].

Defendant Caille added:

It is also true that we have treated much more conservative the rules in some countries to make the branch managers responsible in attaining a level for the bad debt which in the US is generally [inaudible].

124. On October 22, 2003, the Company issued a press release entitled “Adecco Announces Third Quarter Net Income before Amortisation up 28% in EURO Year over Year, up 34% in Local Currency.” The press release stated in part:

Highlights:

- Group Sales for the third quarter down 3% at EUR 4.2 billion (up 2% in local currency); operating income before amortisation up 19% at EUR 163 million (up 25% in local currency); NIBA up 28% at EUR 105 million (up 34% in local currency)

- Group Sales for the 9 months down 6% at EUR 12.1 billion (up 1% in local currency); operating income before amortisation up 5% at EUR 411 million (up 14% in local currency); NIBA up 17% at EUR 257 million (up 26% in local currency)

- Group operating costs for the third quarter down 15% (down 9% in local currency) due to continued tight cost control in all operational areas resulting in further productivity improvements

- Operational gearing continues to improve at Group level in the third quarter demonstrated by growth in operating income before amortisation of 25% on a revenue increase of 2%, all in local currency

- Cash-flow generated from operations was EUR 291 million for the 9 months, up from EUR 199 million last year

- Net debt reduced by EUR 93 million during the quarter and EUR 319 million from the beginning of the year, a reduction of 23%, to EUR 1.1 billion

- Under US GAAP operating income for the 9 months was EUR 408 million (EUR 387 million in 2002) and net income for the same period was EUR 254 million (EUR 216 million in 2002)
Currency effects reduced reported sales, operating income before amortisation and NIBA by 5%, 6% and 6% respectively in the third quarter.

Commenting on the results Jerome Caille, Adecco Group Chief Executive Officer said:

"I am again pleased with the results we have achieved this quarter, measured in local currency. We have extended the improvement in operational gearing across the Group, converting a 2% growth in sales into an operating profit increase of 25%, measured in local currency. The economic environment remains challenging but we are pleased to have achieved the return to positive sales growth that we had in the first quarter. We have also maintained our focus on reducing operating costs producing a further improvement in operating margin quarter over quarter of 40 basis points to 3.8%.”

Felix Weber, Adecco Group Chief Financial Officer, commented: “We further reduced our cost base by 9% in local currency this quarter building on the 2% and 6% reductions achieved in Q1 and Q2. Strong operating cash flow of EUR 291 million contributed to the reduction of net debt, which year to date has now been cut by EUR 319 million to only EUR 1.1 billion. We are effectively managing our working capital and have reduced DSO by 1 day to 59 days compared to last year.”

For the nine months ended September 28, 2003, the Adecco Group reported under US Generally Accepted Accounting Principles (US GAAP) revenues of EUR 12.1 billion, operating income of EUR 408 million, which includes EUR 3 million amortisation of intangibles and a net income of EUR 254 million.

During a conference call held on October 22, 2003, defendant Weber stated:

We have achieved good sales growth, further cost reductions, and an improvement in operational gearing, as well as continuing to produce strong cash flow.

We have added receivables for the year by EUR 133 million, and payables by EUR 115 million. However, if you look at the DSO, we had an increase of four days since the beginning of the year, but if you compare DSO at the same time last year, you will actually see a reduction of one day to 69 days, and by year end we expect this same one day reduction. It is a common pattern that DSO declines by the end of the year, and that will also result in corresponding inflow of cash.

As you are aware, the reduction in DSO is one of our key priorities, which we emphasized through special incentive programs for DSO reductions and throughout evaluation shorter payment term cycles. . . . Our efforts secured that DSO levels are even slightly better this September than they were a year ago. We could also further reduce our net debt. As you see here on this chart, we are now at a level of EUR 1.1 billion, down EUR 587 million below where we were a year ago. As you can see, the balance sheet remains in good shape. The most noticeable change from Q2 is the increase in gross debt, following the issue of the convertible, and the corresponding increase in cash.

Adecco S.A. announced that it does not expect the audit of its consolidated financial statements for the 2003 fiscal year, ended on December 28, 2003, to be completed by Adecco’s auditors, by the previously announced release date of February 4, 2004.

The reasons for the delay in completion of the audit include:

- The identification of material weaknesses in internal controls in the Company’s North American operations of Adecco Staffing
- The resolution of possible accounting, control and compliance issues in the Company’s operations in certain countries
- The completion of the Company’s efforts to address these matters and determine their effect on the Company’s consolidated financial statements.

In this regard an independent Counsel has been appointed by the Audit & Finance Committee of the Company’s Board of Directors to conduct an investigation.

The Company is not yet able to predict when the 2003 audit of its consolidated financial statements will be completed.


Adecco SA, the world’s largest provider of temporary workers, found “material weakness in internal controls” at its North American business and possible accounting irregularities elsewhere. The company’s shares plunged as much as 48 percent, their steepest decline ever.

Adecco, which sends 650,000 temporary workers a day to clients such as Renault SA, will delay releasing 2003 earnings. The Swiss company, whose auditor is Ernst & Young LLP, appointed an independent counsel to lead an investigation and can’t comment further for legal reasons, spokesman Francois Vassard said.

The delay rattled investors following accounting scandals at Italian dairy company Parmalat Finanziaria SpA, which filed for bankruptcy last month, and Dutch retailer Royal Ahold NV, which last year said it had inflated profit, mostly at its U.S. unit.

“Since Adecco isn’t allowed to communicate to the public, it is indicative that there may be some bigger problems at hand,” said Pascal Seidner, who manages the equivalent of $450 million in a pension fund at Zuercher Kantonalbank in Zurich and has sold his Adecco holdings.

Shares of Adecco, based in Glattbrugg, Switzerland, lost as much as 39.1 Swiss francs to 42.7, slicing more than 7.3 billion francs ($6 billion) from its market value. The stock was at 47.75 francs at 3:24 p.m. Swiss time. Chief Executive Officer Jerome Caille had planned to publish earnings Feb. 4, 2004.
North America accounts for about 20 percent of revenue at Adecco, which had total sales of 25.1 billion francs in 2002.

Vassard declined to say who had been appointed as independent counsel. Adecco "is not yet able to predict when the 2003 audit of its consolidated financial statements will be completed," the company said in a statement.

Adecco was formed when France’s Ecco SA in May 1996 agreed to buy Adia SA of Switzerland for $2.2 billion in cash and stock.

Adia had been rescued in 1993 by Swiss entrepreneur Klaus Jacobs and its creditor banks, led by Credit Suisse Group, after the company’s expansion into computer leasing, windsurfers and building inspections had boosted debt.

Adecco, which bought Olsten Corp. in the U.S. in 2000, cut at least 2,500 jobs last year as slowing economies and rising unemployment in its main markets eroded demand for temporary staff. It expected cost savings of as much as 150 million euros ($167 million) in 2003.

POST CLASS PERIOD REVELATIONS


Material weaknesses, related to Adecco Staffing North America, include IT system security; reconciliation of payroll bank accounts; application of accounts receivable; and several issues affecting revenue recognition including lack of systematic documentation of agreed rates and hours; billing errors not timely identified and corrected; and lack of segregation of duties in the branches increasing the likelihood of undetected errors. Of the foregoing, some have already been corrected, and the balance are being actively addressed. The Audit and Finance Committee of the Board initiated certain measures to help to identify any further weaknesses and permanently to resolve them. The chief focus of these measures is to investigate accounting, control and compliance issues in the US and in certain other countries, as well as to investigate accusations made by “whistleblowers” in the US. Outside of the US, these other countries together accounted for less than 10% of the group’s reported 2002 net service revenues.

In addition, the Audit and Finance Committee of the Board has mandated the New York law firm Paul Weiss, Rifkind, Wharton & Garrison LLP as independent experts to conduct an investigation into the foregoing and related matters.

Following the Company’s statement of January 12, the US Securities and Exchange Commission and the US Attorney’s Office for the Southern District of New York opened investigations into this matter. Adecco has assured both authorities of its strong cooperation.

In a further development, the Board acknowledges the resignation of the Group CFO Felix Weber and thanks him for his years of service to Adecco. Felix will be available to help the Chairman of the Board until the General Assembly of
2004. The current Group Financial Controller, Andres Cano, will take over the function of CFO on an interim basis. The Board has already begun work on a permanent appointment to this position.

The Board also acknowledges the resignation of Julio Arrieta from his position as CEO of Adecco Staffing North America and thanks him for his years of service to Adecco. Philippe Marcel, Board member and Chairman of Adecco France, the Group’s largest national operation, has agreed to serve as the Board’s special delegate in the US.

129. During a conference call held on January 16, 2004, defendant Bowmer responded to a question regarding the integration of the IT infrastructure taken over from Olsten at the time of the acquisition, as follows:

Yes, I can answer the question. Excellent, excellent, excellent. Initially, as you know, one of the things that we said and did when we took over the Olsten acquisition – when we took over Olsten was that we would use their systems and one of the reasons that we went to Melville was that we could use their systems. . . . I mean, our systems in the US are very, very well Web enabled and so to do the business, they are very good. They are what they were supposed to be.

However, upon further questioning, Bowmer finally admitted that the pending audit review related to the IT System.


Adecco SA, the world’s largest supplier of temporary workers, is being formally investigated for possible selective disclosure of information to some analysts and reporters in connection with accounting irregularities.

The SWX Swiss Exchange, which started a preliminary investigation Jan. 20, said it had now made the probe formal, according to a faxed statement from the Zurich-based stock market.

“The preliminary probe concluded that it can’t be ruled out that some rules may have been violated in connection with Adecco’s announcement that it would delay its report of 2003 results,” the exchange said in the statement.

The Zurich bourse is looking into whether Adecco breached rules that listed companies must give all investors information that has the potential to move the share price. Two executives including Chief Financial Officer Felix Weber quit last month after Adecco found errors in the way it accounted for revenue.

131. On April 28, 2004, the Company issued a press release entitled “Adecco obtained extension under Syndicated Loan Facility,” in which it announced that it was not able to meet its deadlines for delivering the 2003 audited financial statements. It also delayed the release of its first quarter 2004 financials.
132. In a press release entitled “Adecco Announces Q1 2004 Results and Proposals for AGM,” the Company reported it had spent €36 million in the first quarter of FY 2004 in “audit fees and fees for other advisers” to obtain those results.

133. The 2003 Annual Report conceded that problems in controls had, in fact, existed and that it had not just been overcautiousness on the part of the Board of Directors or the Company’s outside officers. Defendant Bowmer hoped that the “unfortunate episode” was ending and stated that Adecco had “taken a number of significant steps to reinforce our audit and control functions throughout the Company.” In the report, defendant Caille stated that Adecco had “used this opportunity to review [its] operations and systems in the U.S. and drive process efficiencies as well as strengthen[] . . . internal controls.”

ADECCO’S FALSE FINANCIAL REPORTING DURING THE CLASS PERIOD

134. In order to inflate the price of Adecco’s securities, defendants caused the Company to falsely report its results during the Class Period by improperly accounting for its receivables and by its improper recognition of revenue.

135. The Class Period results were included in Form 20-Fs filed with the SEC. The results were also included in press releases. These press releases and SEC filings represented that the financial information was a fair statement of the Company’s financial results and that the results were prepared in accordance with GAAP.

136. These representations were false and misleading as to the financial information reported, as such financial information was not prepared in conformity with GAAP, nor was the financial information “a fair presentation” of the Company’s operations, due to the Company’s improper accounting for its aging accounts receivables and improper recognition of revenue, causing the financial results to be presented in violation of GAAP and SEC rules.

137. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC that are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must
also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

138. During FY 2000-2001, at the very least, Adecco’s receivables and earnings were inflated as a result of the Company’s failure to timely write off uncollectible accounts, in violation of GAAP. In connection with its accounts receivables, Adecco was required to record a bad debt allowance when it appeared likely that not all of its debtors would repay the Company in full. A bad debt allowance is an amount set aside or reserved for bad debts expected to be incurred in the current period. Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard No. 5, ¶8. Pursuant to GAAP, once it appears that a specific receivable or some portion of a group of receivables will be uncollected, a loss must be recorded. Bad debts expense should be recorded on the Company’s income statement in the period the receivables become uncollectible, thus reducing net income.

139. The amount of time that a specific account has been outstanding is important in assessing the likelihood of its collectibility. Generally, the longer the time an account has been outstanding, the less likely it is that a company will be paid. A company will keep an aging report of its receivables to determine the amount of time each invoice has remained unpaid. This aging report is used in determining when to reserve a loss for bad debts or when to write off a specific account as being uncollectible.

140. During at least FY 2000-2001, Adecco’s aging of its receivables was manipulated to understate bad debt expenses. The Company improperly applied new cash receipts, which were intended to satisfy recent customer invoices, to the same customer’s old outstanding receivables. These old outstanding receivables, however, were often times payments that the customer disputed and did not intend to pay. The result was that Adecco’s aging report was inaccurate as it did not reflect the correct amount of time the invoices were outstanding. Accordingly, these old outstanding uncollectible receivables were not timely reserved for.

141. During at least FY 2000-2001, Adecco’s receivables and earnings were inflated as a result of the Company’s failure to properly recognize revenue, in violation of GAAP. Adecco
improperly recognized revenue by billing customers at a higher than agreed upon rate and then by recognizing revenue based upon this inflated rate.

142. The National Accounts group, in New York, negotiated with certain of the Company’s national account customers to establish flat billing rates for each category of employment position that the customer used Adecco to fill. Nonetheless, the branches did not always use the established flat billing rate when dealing with these customers’ representatives on a local level and instead would input a higher rate into the computer system. The Company would then recognize revenue based upon the higher than agreed upon rate. This recognition of revenue was improper as it violated the basic GAAP concept that revenue must be earned and realizable in order for a company to recognize it. See FASB Statement of Concepts No. 5, ¶¶83-84.

143. This improper recognition of revenue further added to the Company’s overstatement of its receivables and failure to timely record bad debt as many customers would refuse to pay the higher than agreed upon rate when billed.

144. Adecco has admitted to serious problems in connection with the application of cash to its accounts receivables and with its recognition of revenue. Although many of these problems arose in connection with the Company’s acquisition of Olsten, back in 2000 or shortly thereafter, the recent investigation by Adecco’s current auditors and attorneys did not cover the 2000 or 2001 financial statements. The now defunct Arthur Andersen, which collapsed in the wake of the Enron scandal, originally audited Adecco’s financial statements for FY 2000-2001, while EY audited Adecco’s financial statements for FY 2002-2003. Nonetheless, EY has never audited, reviewed, or applied any procedures to the 2000 or 2001 financial statements nor did the recent investigation cover any portion of FY 2000-2001. Furthermore, Arthur Andersen did not participate in the current investigation and did not agree to the reissuance of its audit reports for prior years. Accordingly, at least the FY 2000-2001 financial statements remain false.

145. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:
(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (Accounting Principals Board ("APB") No. 28, ¶10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, ¶40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

(e) The principle that financial reporting should provide information about an enterprise’s financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors’ expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

(g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and
The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

146. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information, which because of SEC regulations, regulations of the national stock exchanges, and customary business practice, is expected by investors and securities analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information that is expected to be and must be disclosed.

VIOLATIONS OF SEC REGULATIONS FAILURE TO DISCLOSE KNOWN TRENDS AND UNCERTAINTIES

147. Through Item 4(a) of SEC Form F-1 and Item 5(D) of SEC Form 20-F, Operating and Financial Review and Prospects, requires a foreign issuer to furnish information concerning its trend information in its Registration Statement. In discussing results of operations, Item 5(D) requires the registrant to,

discuss, for at least the current financial year, any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the company's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

148. This is similar to the disclosure that is required of domestic issuers under an item in the section of the financial statements entitled “Management’s discussion and analysis of financial condition and results of operations” (“MD&A”) (Item 303 of Regulation S-K). 17 C.F.R. §229.303. The SEC, in its May 18, 1989 Interpretive Release No. 34-26831, has indicated that registrants should employ the following two-step analysis in determining when a known trend or uncertainty is required to be included in the MD&A disclosure:

A disclosure duty exists where a trend, demand, commitment, event or uncertainty is both presently known to management and reasonably likely to have a material effect on the registrant’s financial condition or results of operation.

149. The MD&A requirements are intended to provide, in one section of a filing, material historical and prospective textual disclosure, enabling investors and other users to assess the
financial condition and results of operations of the registrant, with particular emphasis on the 
registrant's prospects for the future. As Securities Act Release No. 33-6711 states:

The Commission has long recognized the need for a narrative explanation of 
the financial statements, because numerical presentations and brief accompanying 
footnotes alone may be insufficient for an investor to judge the quality of earnings 
and the likelihood that past performance is indicative of future performance. MD&A 
is intended to give the investor an opportunity to look at the company through the 
eyes of management by providing both a short and long term analysis of the business 
of the company.

150. MD&A (Item 303) states:

To the extent that the financial statements disclose material increases in net sales or 
revenues, provide a narrative discussion of the extent to which such increases are 
attributable to increases in prices or to increases in the volume or amount of goods or 
services being sold or to the introduction of new products or services.

17 C.F.R. §229.303.

151. According to Securities Act Release No. 6349:

[I]t is the responsibility of management to identify and address those key variables 
and other qualitative and quantitative factors which are peculiar to and necessary for 
an understanding and evaluation of the individual company.

152. Nonetheless, Adecco during the Class Period, failed to disclose the following: (1) that 
the Company had material internal control weaknesses; (2) that the acquisition of Olsten had caused 
a pervasive problem with aging receivables in its North American segment; (3) that the Company 
had failed to properly take allowances for doubtful accounts for at least 2000 and 2001 and that no 
write-off for these receivables was taken until year-end December 31, 2002, which was not even 
announced until June of 2003; and (4) that even when the Company first announced it was taking a 
large write-off for its bad debts – only six month prior to the end of the Class Period – the Company 
failed to disclose the true reason for the write-off. All of this information was necessary for a proper 
understanding and evaluation of Adecco's operating performance and for making an informed 
investment decision.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 
Against All Defendants Except Jacobs


- 54 -
154. During the Class Period, the Individual Defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were materially false and misleading in that they contained material misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

155. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:
   (a) Employed devices, schemes, and artifices to defraud;
   (b) Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made not misleading; or
   (c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiffs and others similarly situated in connection with their purchases of Adecco publicly traded securities during the Class Period.

156. Plaintiffs and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Adecco publicly traded securities. Plaintiffs and the Class would not have purchased Adecco publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants’ misleading statements.

157. As a direct and proximate result of these defendants’ wrongful conduct, plaintiffs and the other members of the Class suffered damages in connection with their purchases of Adecco publicly traded securities during the Class Period.

COUNT II

For Violation of §20(a) of the 1934 Act
Against All Defendants


159. The executive officers of Adecco prepared, or were responsible for preparing, the Company’s press releases and SEC filings. The Individual Defendants and Jacobs controlled other employees of Adecco. Adecco controlled the Individual Defendants, Jacobs and each of its officers,
executives and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

160. Jacobs is one of the Company's founders. Jacobs was a controlling shareholder in Adecco who disposed of millions of shares of Adecco through KJ Jacobs AG, an entity he controlled shortly before the January 12, 2004 announcement that devastated the Company's share price. Jacobs is a former co-chairman of Adecco and the chairman of the Jacobs Family Foundation, which maintains a 100% beneficial interest in KJ Jacobs AG. Jacobs retired from the Adecco Board of Directors in April of 2002.

CLASS ACTION ALLEGATIONS

161. Plaintiffs bring this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Adecco publicly traded securities (the "Class") on the open market during the Class Period. Excluded from the Class are defendants, directors and officers of Adecco and their families and affiliates.

162. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. During the Class Period, Adecco had more than 186 million shares of stock outstanding, owned by thousands of persons.

163. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class that predominate over questions that may affect individual Class members include:

(a) Whether the 1934 Act was violated by defendants;
(b) Whether defendants omitted and/or misrepresented material facts;
(c) Whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and
(d) Whether defendants knew or recklessly disregarded that their statements were false and misleading.
PRAYER

WHEREFORE, plaintiffs pray for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; awarding reasonable attorney and expert fees; and such equitable/injunctive or other relief as the Court may deem proper.

JURY DEMAND

Plaintiffs demand a trial by jury.

DATED: June 30, 2005

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
WILLIAM S. LERACH
DARREN J. ROBBINS
SCOTT H. SAHAM
RACHEL L. JENSEN

SCOTT H. SAHAM

401 B Street, Suite 1600
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
JEFFREY W. LAWRENCE
100 Pine Street, Suite 2600
San Francisco, CA 94111
Telephone: 415/288-4545
415/288-4534 (fax)

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP
ALAN SCHULMAN
BLAIR A. NICHOLAS
NIKI L. O’NEEL
12544 High Bluff Drive, Suite 150
San Diego, CA 92130
Telephone: 858/793-0070
858/793-0323 (fax)

Co-Lead Counsel for Plaintiffs
DECLARATION OF SERVICE BY MAIL

I, the undersigned, declare:

1. That declarant is and was, at all times herein mentioned, a citizen of the United States and a resident of the County of San Diego, over the age of 18 years, and not a party to or interested party in the within action; that declarant’s business address is 401 B Street, Suite 1600, San Diego, California 92101.

2. That on June 30, 2005, declarant served the CONSOLIDATED AMENDED COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS by depositing a true copy thereof in a United States mailbox at San Diego, California in a sealed envelope with postage thereon fully prepaid and addressed to the parties listed on the attached Service List.

3. That there is a regular communication by mail between the place of mailing and the places so addressed.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 30th day of June, 2005, at San Diego, California.

LELA FULCHER
Counsel For Defendant(s)
Laurie B. Smilan
Latham & Watkins LLP
11955 Freedom Drive, Suite 500
Reston, VA 20191-5651
703/456-1000
703/456-1001 (Fax)

David M. Brodsky
Latham & Watkins LLP
885 Third Avenue, Suite 1000
New York, NY 10022-4802
212/906-1200
212/751-4864 (Fax)

Counsel For Plaintiff(s)
Alan Schulman
Blair A. Nicholas
Niki L. O'Neel
Bernstein Litowitz Berger & Grossman LLP
12544 High Bluff Dr., Suite 150
San Diego, CA 92130
858/793-0070
858/793-0323 (Fax)

Timothy A. Horton
Latham & Watkins LLP
600 West Broadway, Suite 1800
San Diego, CA 92101-3375
619/236-1234
619/696-7419 (Fax)

Bruce G. Vanyo
Nina F. Locker
Steven Guggenheim
Wilson Sonsini Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, CA 94304-1050
650/493-9300
650/493-6811 (Fax)

Curtis V. Trinko
Law Offices of Curtis V. Trinko LLP
16 West 46th Street, Seventh Floor
New York, NY 10036
212/490-9550
212/986-0158 (Fax)