MONSTER WORLDWIDE INC
Form 10-Q
May 10, 2006

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

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# FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM to**

**COMMISSION FILE NUMBER 000-21571**

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# MONSTER WORLDWIDE, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| **DELAWARE** | **13-3906555** |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (IRS EMPLOYER IDENTIFICATION NUMBER) |

**622 Third Avenue, New York, New York 10017**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

**(212) 351-7000**
(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ¨ No

Indicate the number of shares outstanding of each of the issuer s class of common stock as of May 1, 2006, the latest practicable date.

| Class | **Outstanding on May 1, 2006** |
|---|---|
| Common Stock | 123,607,036 |
| Class B Common Stock | 4,762,000 |

**MONSTER WORLDWIDE, INC.**
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 1.** FINANCIAL STATEMENTS

**MONSTER WORLDWIDE, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
(in thousands, except per share amounts)
(unaudited)

| | Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| **Revenue** | **$ 291,747** | **$ 228,524** |
| Salaries and related | 113,348 | 97,659 |
| Office and general | 54,804 | 45,399 |
| Marketing and promotion | 66,117 | 48,411 |
| Total operating expenses | 234,269 | 191,469 |
| **Operating income** | **57,478** | **37,055** |
| Interest and other, net | 3,342 | (82) |
| Income from continuing operations before income taxes and equity interests | 60,820 | 36,973 |
| Income taxes | 22,149 | 13,068 |
| Losses in equity interests | (1,241) | (209) |
| **Income from continuing operations** | **37,430** | **23,696** |
| Income (loss) from discontinued operations, net of tax | 4,832 | (3,126) |
| **Net income** | **$ 42,262** | **$ 20,570** |
| **Basic earnings per share:** | | |
| Earnings per share from continuing operations | $ 0.30 | $ 0.20 |
| Income (loss) per share from discontinued operations, net of tax | 0.04 | (0.03) |
| **Basic earnings per share*** | **$ 0.33** | **$ 0.17** |
| **Diluted earnings per share:** | | |
| Earnings per share from continuing operations | $ 0.29 | $ 0.19 |
| Income (loss) per share from discontinued operations, net of tax | 0.04 | (0.03) |
| **Diluted earnings per share*** | **$ 0.32** | **$ 0.17** |
| **Weighted average shares outstanding:** | | |
| Basic | 126,753 | 120,655 |
| Diluted | 130,619 | 123,577 |

* - Basic earnings per share for the three months ended March 31, 2006 and diluted earnings per share for the three months ended March 31, 2006 and 2005 do not add due to rounding.

*See accompanying notes.*

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**MONSTER WORLDWIDE, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except per share amounts)**

| **ASSETS** | **March 31, 2006 (Unaudited)** | **December 31, 2005** |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 166,035 | $ 196,597 |
| Available-for-sale securities | 221,019 | 123,747 |
| Accounts receivable, net of allowance for doubtful accounts of $15,831 and $14,067 | 384,985 | 382,606 |
| Prepaid and other | 62,187 | 59,711 |
| Current assets of discontinued operations | | 10,398 |
| **Total current assets** | **834,226** | **773,059** |
| Property and equipment, net | 94,974 | 92,034 |
| Goodwill | 689,803 | 679,008 |
| Intangibles, net | 54,541 | 56,670 |
| Investment in unconsolidated affiliate | 65,480 | 46,758 |
| Other assets | 30,544 | 29,939 |
| Non-current assets of discontinued operations | | 1,247 |
| **Total assets** | **$ 1,769,568** | **$ 1,678,715** |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 117,532 | $ 106,154 |
| Accrued expenses and other current liabilities | 178,818 | 176,362 |
| Income taxes payable | 37,248 | 40,045 |
| Deferred revenue | 345,040 | 328,902 |
| Current portion of long-term debt | 21,789 | 31,378 |
| Current liabilities of discontinued operations | | 13,747 |
| **Total current liabilities** | **700,427** | **696,588** |
| Long-term debt, less current portion | 3,093 | 15,678 |
| Deferred income taxes | 46,065 | 45,396 |
| Other long-term liabilities | 1,399 | 1,241 |
| Long-term liabilities of discontinued operations | | 137 |
| **Total liabilities** | **750,984** | **759,040** |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, $.001 par value, authorized 800 shares; issued and outstanding: none | | |
| Common stock $.001 par value, authorized 1,500,000 shares; issued: 124,617 and 121,830 shares, respectively; outstanding: 123,310 and 120,703 shares, respectively | 124 | 122 |
| Class B common stock, $.001 par value, authorized 39,000 shares; issued and outstanding: 4,762 shares | 5 | 5 |
| Additional paid-in capital | 1,358,758 | 1,267,741 |
| Accumulated other comprehensive income | 42,979 | 35,518 |
| Unamortized stock based compensation | (46,236 ) | (4,403 ) |
| Retained deficit | (337,046 ) | (379,308 ) |
| **Total stockholders equity** | **1,018,584** | **919,675** |
| **Total liabilities and stockholders equity** | **$ 1,769,568** | **$ 1,678,715** |

*See accompanying notes.*

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**MONSTER WORLDWIDE, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**
**(unaudited)**

| | Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| **Cash flows provided by operating activities:** | | |
| Net income | **$ 42,262** | **$ 20,570** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Income) Loss from discontinued operations, net of tax | (4,832) | 3,126 |
| Depreciation and amortization of intangibles | 10,694 | 9,119 |
| Provision for doubtful accounts | 3,745 | 2,315 |
| Tax benefit on stock based compensation | 17,315 | 581 |
| Excess tax benefit on stock option exercises | (17,051) | |
| Non-cash compensation | 2,068 | 1,447 |
| Common stock issued for matching contribution to 401(k) plan | 996 | 741 |
| Deferred income taxes | 1,163 | 8,854 |
| Minority interests and other | 1,235 | 280 |
| Changes in assets and liabilities, net of business combinations: | | |
| Accounts Receivable | (6,123) | 7,607 |
| Prepaid and other | (375) | 1,742 |
| Deferred revenue | 16,138 | 6,728 |
| Accounts payable, accrued liabilities and other | 11,281 | (7,875) |
| Net cash used for operating activities of discontinued operations | (2,234) | (13,872) |
| **Total adjustments** | 34,020 | 20,793 |
| **Net cash provided by operating activities** | **76,282** | **41,363** |
| **Cash flows used for investing activities:** | | |
| Capital expenditures | (10,925) | (7,881) |
| Purchase of marketable securities | (334,990) | |
| Sales and maturities of marketable securities | 238,001 | |
| Payments for acquisitions and intangible assets, net of cash acquired | (23,655) | (42,477) |
| Investment in unconsolidated affiliate | (19,936) | (50,137) |
| Sale of long-term investment and other | | 1,446 |
| Net cash used for investing activities of discontinued operations | (960) | (752) |
| **Net cash used for investing activities** | **(152,465)** | **(99,801)** |
| **Cash flows provided by financing activities:** | | |
| Payments on capital lease obligations | (276) | (507) |
| Proceeds from exercise of employee stock options | 59,594 | 3,653 |
| Excess tax benefits on stock option exercises | 17,051 | |
| Repurchase of common stock | (8,537) | |
| Structured stock repurchase, net | (22,758) | |
| **Net cash provided by financing activities** | **45,074** | **3,146** |
| Effects of exchange rates on cash | 547 | (1,894) |
| **Net decrease in cash and cash equivalents** | (30,562) | (57,186) |
| **Cash and cash equivalents, beginning of period** | 196,597 | 198,111 |
| **Cash and cash equivalents, end of period** | **$ 166,035** | **$ 140,925** |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for interest | $ 3,917 | $ 1,089 |
| Cash paid for income taxes | $ 673 | $ 893 |
| **Non-cash financing and investing activities:** | | |
| Liabilities created in connection with business combinations | $ | $ 10,236 |

*See accompanying notes.*

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**MONSTER WORLDWIDE, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(dollars in thousands, except per share amounts)**
**(unaudited)**

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

***Description of Business***

Monster Worldwide, Inc. (the Company ) has continuing operations that consist of four reportable segments: Monster Careers - North America; Monster Careers - International; Internet Advertising and Fees; and Advertising & Communications. These segments provide services to customers in a variety of industries throughout North America, Europe and the Asia-Pacific region.

*Monster Careers.* The Company s Monster Careers segments (both North America and International) predominantly earn revenue from the placement of job postings on the websites within the Monster network, access to the Company s resume databases and other career-related services. The Company s Monster Careers segments operate globally.

*Internet Advertising and Fees.* The Company s Internet Advertising and Fees segment earns revenue from the display of advertisements on the Monster network of websites, click-throughs on text-based links, leads provided to advertisers and subscriptions to premium services. Among the larger components of this segment are the Company s Fastweb, MonsterTrak, Tickle and Military.com businesses. Prior to the first quarter of 2006, these operations were managed and reported by the Company s Monster segment. Revenue from this segment is primarily earned in the United States.

*Advertising & Communications.* The Company s Advertising & Communications segment mainly earns revenue from job advertisements placed in newspapers, Internet career-related websites such as Monster, and other media, plus associated fees for related services. Revenue is recorded net of media placement costs. This segment operates primarily in North America and in the United Kingdom.

***Basis of Presentation***

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated interim financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

These statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for fair presentation of the information contained herein. These consolidated interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The Company adheres to the same accounting policies in preparation of interim financial statements. As permitted under generally accepted accounting principles, interim accounting for certain expenses, including income taxes are based on full year assumptions. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual income tax rates.

## 2. EARNINGS PER SHARE AND STOCK-BASED COMPENSATION

**Earnings Per Share**

Basic earnings per share does not include the effects of potentially dilutive stock options and restricted stock awards, and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, commitments to issue common stock and common stock issuable upon exercise of stock options for periods in which the options exercise price is lower than the Company s average share price for the period.

A reconciliation of shares used in calculating basic and diluted earnings per common and Class B common share follows. Certain stock options and stock issuable under employee compensation plans were excluded from the computation of earnings per share due to their anti-dilutive effect. The weighted average number of such common stock equivalents is approximately 713,000 and 5,539,000 for the three months ended March 31, 2006 and 2005, respectively.

| **(thousands of shares)** | **Three Months Ended March 31,** | |
|---|---|---|
| | **2006** | **2005** |
| Basic weighted average shares outstanding | 126,753 | 120,655 |
| Effect of common stock equivalents - stock options and stock issuable under employee compensation plans | 3,866 | 2,922 |
| Diluted weighted average shares outstanding | 130,619 | 123,577 |

**Impact of the Adoption of SFAS 123R**

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 123(R) *Share Based Payment* ( SFAS 123R ) using the modified-prospective-transition method beginning January 1, 2006. Under that transition method, stock compensation costs recognized during the three-month period ended March 31, 2006 includes: (a) compensation cost for all share based payments granted to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated. SFAS 123R also requires excess tax benefits from the exercise of stock options to be presented in the consolidated statements of cash flows as a financing activity rather than an operating activity, as presented prior to the adoption of SFAS 123R. Excess tax benefits are realized benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock based compensation costs for such options. The total income tax benefit recognized in the statement of operations for stock-based compensation costs was $264 for the three months ending March 31, 2006. The Company did not have any stock-based compensation costs capitalized as part of an asset. The Company has granted stock options and awarded non-vested stock to employees and executive officers.

At March 31, 2006, the Company has the following stock-based employee compensation plans:

*Employee Stock Options.* For the three months ended March 31, 2006, the Company recognized approximately $95 of pre-tax compensation expense in the consolidated statement of operations related to employee stock options. The fair value of these options was estimated on the grant date using the Black-Scholes option-pricing model. As of January 1, 2006, substantially all of the Company s employee stock options were vested and the Company has not granted any stock options subsequent to January 1, 2006.

*Executive Stock Bonus Arrangements.* The Company, from time to time, enters into separate share-based payment arrangements with executive officers. The terms of such agreements are subject to various specified performance and vesting conditions. As of March 31, 2006, there were approximately 421,559 non-vested shares outstanding related to executive agreements with varying exercise prices. The Company recorded the awards as a component of equity using the fair market value of the Company s common stock on the date the award was approved by the Compensation Committee of the Board of Directors. These awards are amortized on a straight-line basis over the vesting period. For the three months ended March 31, 2006 and 2005, the Company recognized approximately $1,290 and $968, respectively, of pre-tax compensation expense, as a component of salaries and related in the consolidated statements of operations, related to stock bonus arrangements with executive officers.

*2006 Restricted Stock Unit Plan.* On March 27, 2006, the Compensation Committee of the Board of Directors approved the grant of 675,200 restricted stock units to approximately 350 employees of the Company ( 2006 RSU Plan ). The amounts of restricted stock units awarded are subject to reduction or elimination based on whether or not certain specified performance-based conditions are satisfied. If the optimal performance-based condition becomes satisfied, the maximum number of restricted stock units will vest in 25% increments on each of March 5, 2007, March 5, 2008, March 5, 2009 and March 5, 2010, provided that the recipient is continuously employed by the Company or any of its affiliates on each applicable vesting date. The Company recorded the equity award using the fair market value of the Company s stock on March 27, 2006, which was $48.58 and will amortize the award on a straight-line basis over the vesting period. For the three months ended March 31, 2006, the Company recorded approximately $683 of pre-tax compensation expense, as a component of salaries and related in the consolidated statements of operations, related to the 2006 RSU Plan.

**Share-based Payment Activity**

The following table summarizes the activity of our employee stock options for the three months ended March 31, 2006:

| **(thousands of shares)** | **Shares** | **Weighted Average Exercise Price** | **Weighted Average Contractual Term (in years)** | **Aggregate Intrinsic Value** |
|---|---|---|---|---|
| Outstanding at January 1, 2006 | 13,673 | $ 27.94 | | |
| Granted | | | | |
| Exercised | (2,505 ) | 23.74 | | |
| Forfeited/expired/cancelled | (104 ) | 47.09 | | |
| Outstanding at March 31, 2006 | 11,064 | 28.74 | 6.2 | $ 233,700 |
| Options exerciseable at March 31, 2006 | 7,348 | $ 28.41 | 5.2 | $ 157,636 |

The aggregate intrinsic value is calculated as the difference between the market price of our common stock as of March 31, 2006 and the exercise price of the underlying options. During the three months ended March 31, 2006 and 2005, the aggregate intrinsic value of options exercised was $59,897 and $1,802, respectively. The Company did not grant any options in the 2006 period; however, the weighted average grant date fair value of options granted in the 2005 period was $28.85. There is approximately $53 of unrecognized compensation expense related to unvested stock options awarded under our incentive plan. This cost will be recorded in the second quarter of 2006.

The following table summarizes the activity of our non-vested stock for the three months ended March 31, 2006:

| | Shares | Weighted Average Fair Value at Grant Date |
|---|---|---|
| Non-vested at January 1, 2006 | 241,309 | $ 29.64 |
| Granted - 2006 RSU Plan | 675,200 | 48.58 |
| Granted - Executive Bonus Agreements | 237,500 | 46.11 |
| Vested | (57,250 ) | |
| Non-vested at March 31, 2006 | 1,096,759 | $ 46.41 |

As of March 31, 2006 there was approximately $32,118 and $14,065 of unrecognized compensation cost related to the Company s 2006 RSU Plan and Executive stock bonus agreements, respectively. These awards relate to non-vested stock and are being amortized over the vesting periods on a straight-line basis.

**Prior to the Adoption of SFAS 123R**

Prior to the adoption of SFAS 123R, the Company provided the disclosures required under SFAS 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure,* which requires disclosure of the pro forma effects of stock option expense on net income and earnings per share. The Company s prior period financial statements accounted for the issuance of employee stock options using Accounting Principles Board ( APB ) Opinion No. 25 ( APB 25 ), *Accounting for Stock Issued to Employees* and related interpretations. Under APB 25, generally, no compensation expense was recognized in connection with the awarding of stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the quoted market price of the stock is equal to or less than the amount an employee must pay to acquire the stock as defined. The pro forma effects of stock-based compensation on net income and net income per share in the 2005 period have been estimated at the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

| | Three Months Ended March 31, 2005 |
|---|---|
| Risk-free interest rate | 4.2% |
| Volatility | 42.2% |
| Expected life (years) | 4.4 |

For purposes of pro forma disclosures, the estimated fair value of the options is assumed to be expensed over the options vesting periods. The pro forma effects of recognizing compensation expense under the fair value method on the Company s operating results and per share data are as follows:

| | Three Months Ended March 31, 2005 |
|---|---|
| Net income as reported | $ 20,570 |
| Add: Stock based employee compensation expense included in reported net income, net of tax | 629 |
| Deduct: Compensation expense determined under fair value based method for all awards, net of tax | (21,552 ) |
| Pro forma net loss | $ (353 ) |
| **Basic earnings per share:** | |
| Net income - as reported | $ 0.17 |
| Net income - pro forma | $ |
| **Diluted earnings per share:** | |
| Net income - as reported | $ 0.17 |
| Net income - pro forma | $ |

**Stock Option Accelerations**

During the year ended December 31, 2005, the Company accelerated the vesting date of substantially all of its unvested, outstanding stock option awards in order to avoid recognizing compensation expense in the consolidated statement of operations in the Company s financial statements subsequent to the effectiveness of SFAS 123R on January 1, 2006. As a result of the accelerations, the Company has eliminated approximately $26,940 of compensation expense that would have been recognized in future periods.

On December 28, 2004, the Company granted approximately 2,800,000 options to executives and employees. Such options vested over the five-month period ending on May 31, 2005 and the vested options generally become exercisable in four annual installments commencing December 28, 2005.

Included in pro-forma compensation expense for the three months ended March 31, 2005 is approximately $940, net of tax, resulting from accelerated vesting that occurred in the first quarter of 2005. In addition, the pro-forma compensation expense for the three months ended March 31, 2005 includes approximately $13,910, net of tax, related to the vesting of the December 28, 2004 grant.

## 3. BUSINESS COMBINATIONS

For the period January 1, 2005 through March 31, 2006, we completed two business combinations. Although none of the following acquired businesses was considered to be a significant subsidiary, either individually or in the aggregate, they do affect the comparability of results from period to period. The acquisitions and the acquisition dates are as follows:

| Acquired Business | Acquisition Date | Business Segment |
|---|---|---|
| Emailjob SAS | February 11, 2005 | Monster Careers - International |
| JobKorea Co., Ltd. | October 14, 2005 | Monster Careers - International |

**Accrued Integration and Restructuring Costs**

The Company has formulated integration and restructuring plans to eliminate redundant facilities, personnel and duplicate assets in connection with its business combinations. These costs were recognized as liabilities assumed in connection with the Company s business combinations. Accordingly, these costs are considered part of the purchase price of the business combinations and have been recorded as increases to goodwill. During the three months ended March 31, 2006, the Company charged $1,340 to goodwill relating to the Company s acquisition of Emailjob.

Changes in the Company s approved restructuring plans or costs related to new restructuring initiatives may be recorded in goodwill for up to one year following the acquisition date and must be recorded in the Company s operating results thereafter. Reductions to integration and restructuring reserves established in connection with purchase business combinations are recorded as a reduction to goodwill. As of March 31, 2006 and December 31, 2005, the Company had accrued $7,966 and $7,703, respectively, for integration and restructuring obligations, mainly future operating lease payments.

**4. INVESTMENT IN UNCONSOLIDATED AFFILIATE**

In February 2005, the Company acquired a 40% interest in ChinaHR.com Holdings Ltd. ( ChinaHR ) for consideration of $50,000 in cash. In February 2006, the Company increased its ownership interest in ChinaHR to 44.4% by acquiring an additional 4.4% interest from ChinaHR shareholders, for cash consideration of $19,936. The Company accounts for its investment in ChinaHR using the equity method of accounting, thereby recording its owned percentage of ChinaHR s net results of operations as Losses in Equity Interests in the Company s statements of operations. Such losses reduce the carrying value of the Company s investment in ChinaHR.

In March 2006, the Company entered into a loan agreement with ChinaHR, whereby the Company has agreed to advance ChinaHR up to an aggregate of $20,000, with no more than $10,000 being advanced in the first year of the agreement. Interest on the loans will be assessed at the average one-month U.S. Dollar LIBOR rate plus 1% and shall be payable quarterly, in arrears. The credit facility provides that any advances shall be due and payable in full on the maturity date, which is the earliest of March 2011 or the consummation of an initial public offering of securities by ChinaHR. There were no amounts outstanding under this facility at March 31, 2006.

ChinaHR is a leading recruitment website in China and provides online recruiting, campus recruiting and other human resource solutions. As a result of its investment, the Company has the right to occupy three of seven seats on ChinaHR s Board of Directors. In addition, the Company also has certain rights and obligations, the amount and likelihood of which are not currently determinable, to acquire a 51% or more interest in ChinaHR in the event of an initial public offering or February 1, 2008, whichever comes first.

**5.** COMPREHENSIVE INCOME (LOSS)

The Company s comprehensive income (loss) is as follows:

| | Three Months ended March 31, 2006 | 2005 |
|---|---|---|
| Net income | $ 42,262 | $ 20,570 |
| Foregn currency translation adjustment and other | | |