

ABLEST INC
Form 10-Q
August 13, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 JUNE 29, 2003
- 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 1-10893

Ablest Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

65-0978462
(I.R.S. Identification No.)

1901 Ulmerton Road, Suite 300
Clearwater, Florida 33762
(727) 299-1200

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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 No

The number of outstanding shares of the registrant's Common Stock at June 29, 2003 was 2,868,722.

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Balance Sheets

Condensed Statements of Operations

Condensed Statements of Cash Flows

Notes to Condensed Financial Statements

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURE

Ex-31.1 Section 302 CEO Certification

Ex-31.2 Section 302 CFO Certification

Ex-32.1 Section 906 CEO Certification

Ex-32.2 Section 906 CFO Certification

Table of Contents

ABLEST INC.

Table of Contents

<u>Item No.</u>	<u>Page</u>
PART I FINANCIAL INFORMATION	
1. Financial Statements:	
Condensed Balance Sheets as of June 29, 2003 (Unaudited) and December 29, 2002	3
Condensed Statements of Operations (Unaudited) for the Thirteen and Twenty-six week periods ended June 29, 2003 and June 30, 2002	4
Condensed Statements of Cash Flows (Unaudited) for the Twenty-six week periods ended June 29, 2003 and June 30, 2002	5
Notes to Condensed Financial Statements	6
2. Management's Discussion and Analysis of Results of Operations and Financial Condition	9
3. Quantitative and Qualitative Disclosure about Market Risk	11
4. Controls and Procedures	11
PART II OTHER INFORMATION	
1. Legal Proceedings	12
2. Change in Securities and Uses of Proceeds	12
3. Defaults Upon Senior Securities	12
4. Submission of Matters to Vote of Security Holders	12
5. Other Information	12
6. Exhibits and Reports on Form 8-K	12
SIGNATURE	13

Table of ContentsPART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ABLEST INC.
Condensed Balance Sheets
(amounts in thousands except share and per share data)

	<u>June 29, 2003</u>	<u>December 29, 2002</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,646	\$ 1,858
Accounts receivable, net	11,280	11,639
Prepaid expenses and other current assets	428	296
Current deferred tax asset	988	988
	<u> </u>	<u> </u>
Total current assets	16,342	14,781
Property, plant and equipment, net	728	872
Deferred tax asset, net	2,234	2,234
Goodwill, net	1,283	1,283
Other assets	39	46
	<u> </u>	<u> </u>
Total assets	\$20,626	\$ 19,216
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 196	\$ 256
Accrued expenses and other current liabilities	3,692	4,008
Short-term borrowings	2,000	
	<u> </u>	<u> </u>
Total current liabilities	5,888	4,264
Other liabilities	67	81
	<u> </u>	<u> </u>
Total liabilities	5,955	4,345
	<u> </u>	<u> </u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock of \$.05 par value; 500,000 shares authorized, none issued or outstanding at June 29, 2003 and December 29, 2002		
Common stock of \$.05 par value; 7,500,000 shares authorized, 3,308,929 shares issued and outstanding including shares held in treasury at June 29, 2003 and December 29, 2002, respectively	165	165
Additional paid-in capital	4,936	4,936
Retained earnings	11,584	11,725
Treasury stock at cost; 440,207 and 428,341 shares held at June 29, 2003 and December 29, 2002, respectively	(2,014)	(1,955)
	<u> </u>	<u> </u>
Total stockholders equity	14,671	14,871

Edgar Filing: ABLEST INC - Form 10-Q

Total liabilities and stockholders' equity	\$20,626	\$ 19,216
--	----------	-----------

See accompanying Notes to Condensed Financial Statements

Table of Contents

ABLEST INC.
Condensed Statements of Operations
(amounts in thousands except share and per share data)
(Unaudited)

	For the Thirteen Week Periods Ended		For the Twenty-six Week Periods Ended	
	June 29, 2003	June 30, 2002	June 29, 2003	June 30, 2002
Net service revenues	\$ 24,264	\$ 26,234	\$ 47,503	\$ 45,461
Cost of services	20,550	21,411	39,666	37,027
Gross profit	3,714	4,823	7,837	8,434
Selling, general and administrative expenses	3,830	4,404	8,075	8,597
Operating income (loss)	(116)	419	(238)	(163)
Other:				
Interest income (expense), net	(17)	(6)	(22)	44
Miscellaneous, net	17	(8)	33	(4)
Other income (loss)		(14)	11	40
Income (loss) before income taxes	(116)	405	(227)	(123)
Income tax expense (benefit)	(44)		(86)	(201)
Net income (loss)	\$ (72)	\$ 405	\$ (141)	\$ 78
Basic net income (loss) per common share	\$ (0.03)	\$ 0.14	\$ (0.05)	\$ 0.03
Diluted net income (loss) per common share	\$ (0.03)	\$ 0.14	\$ (0.05)	\$ 0.03
Weighted average number of common shares in computing net income (loss) per common share				
Basic	2,868,381	2,873,007	2,864,845	2,896,944
Diluted	2,868,381	2,893,007	2,864,845	2,916,944

See accompanying Notes to Condensed Financial Statements

Table of Contents

ABLEST INC.
Condensed Statements of Cash Flows
(amounts in thousands)
(Unaudited)

	For the Twenty-six Week Periods Ended	
	June 29, 2003	June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from continuing operations	\$ (141)	\$ 78
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	258	343
Loss (gain) on disposal of property, plant and equipment	3	6
Deferred income taxes		(1)
Stock compensation	13	51
Changes in assets and liabilities (see below)	(169)	(2,081)
Net cash provided by (used in) operating activities	(36)	(1,604)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(117)	(27)
Net cash provided by (used in) investing activities	(117)	(27)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	2,000	1,650
Repayment of short-term borrowings		(200)
Purchase of treasury shares	(59)	(71)
Net cash provided by (used in) financing activities	1,941	1,379
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,788	(252)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,858	607
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,646	\$ 355
Changes in assets and liabilities providing (using) cash:		
Accounts receivable, net	\$ 359	\$(3,495)
Prepaid expenses and other current assets	(132)	(163)
Other assets	7	
Accounts payable	(60)	73
Accrued expenses and other current liabilities	(329)	1,504
Other liabilities	(14)	
Total change in assets and liabilities providing (using) cash	\$ (169)	\$(2,081)

See accompanying Notes to Condensed Financial Statements

Table of Contents

ABLEST INC.
Notes to Condensed Financial Statements
(Unaudited)

1. COMPANY BACKGROUND

Ablest Inc. (Company) offers staffing services in the United States. Staffing services are principally provided through 44 service locations in the Eastern United States and selected Southwestern markets with the capability to supply staffing services for the clerical, industrial and information technology needs of their customers. Positions often filled include, but are not limited to, data entry, office administration, telemarketing, light industrial assembly, order picking, shipping, network administration, database administration, program analyst, web development, project management and technical writing. Ablest does not service any specific industry or field; instead, its services are provided to a broad-based customer list.

2. BASIS OF PRESENTATION

These interim financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States for interim financial information, the instructions to Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 29, 2002. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

All adjustments, consisting of only normal recurring adjustments, considered necessary for fair presentation have been reflected in these condensed financial statements. The operating results for the twenty-six week period ended June 29, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2003.

In order to maintain consistency and comparability between periods presented, certain amounts have been reclassified from the previously reported consolidated financial statements to conform with the financial statement presentation of the current period.

3. NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board issued Financial Accounting Standards No. 148, (SFAS No. 148), Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation , to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years ending after December 15, 2002 and did not have a material financial impact upon the Company.

Table of Contents

ABLEST INC.
Notes to Condensed Financial Statements
(Unaudited)

4. SHORT-TERM BORROWINGS

On July 22, 2001, the Company signed a \$5,000,000 Standard LIBOR Grid Note agreement (LIBOR Agreement) with Manufacturers and Traders Trust Company (M&T). The interest rate on borrowings under the unsecured credit facility is elected by the Company at the time of borrowing and is either (i) the bank's prime rate or (ii) the 30, 60, or 90 day London Interbank Offered Rate (LIBOR) plus 250 basis points (Modified LIBOR Rate).

The LIBOR Agreement is a one-year demand note that originally expired on July 21, 2001 and is renewable annually with the consent of both parties. It does not contain working capital or other restrictive covenants. On June 14, 2002, the Company renewed the LIBOR Agreement for another year extending the expiration date to July 22, 2003. All other terms and conditions of the LIBOR Agreement remain unchanged.

The \$2,000,000 in short-term borrowings on the balance sheet for June 29, 2003, was borrowed under this LIBOR Agreement. See Note 7, Subsequent Events, for additional information.

5. STOCKHOLDERS' EQUITY

The changes in stockholders' equity for the twenty-six week period ended June 29, 2003 are summarized as follows:

(amounts in thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Stock Amount	Total Stockholders' Equity
Balance at December 29, 2002	\$ 165	\$4,936	\$ 11,725	428,341	\$(1,955)	\$ 14,871
Net loss			(141)			(141)
Stock repurchase program				11,866	(59)	(59)
Balance at June 29, 2003	\$ 165	\$4,936	\$ 11,584	440,207	\$(2,014)	\$ 14,671

6. STOCK OPTIONS

The Company grants stock options for a fixed number of shares to executive officers, certain other key employees, and independent directors. On May 20, 2003, the date of the Company's Annual Meeting of Shareholders, upon re-election to the Board of Directors (Board), the independent directors of the Board were granted options to purchase 6,000 shares as per the terms of the Company's Independent Directors' Stock Option Plan. The options become fully vested one year from the date of grant. The options are exercisable at the closing market price on the date of grant.

The Company has elected to continue to use the intrinsic value method of accounting for stock options under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of Financial Accounting Standards No. 123, (SFAS No. 123), Accounting for Stock-Based Compensation.

Table of Contents

ABLEST INC.
Notes to Condensed Financial Statements
(Unaudited)

(amounts in thousands except share and per share data)	For the Twenty-six Week Periods Ended	
	June 29, 2003	June 30, 2002
Net income (loss), as reported	\$ (141)	\$ 78
Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects	15	
Net income (loss), pro forma	\$ (156)	\$ 78
Net income (loss) per share:		
Basic, as reported	\$ (0.05)	\$ 0.03
Diluted, as reported	\$ (0.05)	\$ 0.03
Basic, pro forma	\$ (0.05)	\$ 0.03
Diluted, pro forma	\$ (0.05)	\$ 0.03
Weighted average number of common shares in computing net income (loss) per common share		
Basic	2,864,845	2,896,944
Diluted	2,864,845	2,916,944

7. SUBSEQUENT EVENTS

In July 2003, the Company renewed the LIBOR Agreement for thirty days.

On August 13, 2003, the Company signed a two year \$7,500,000 Committed Revolving Credit Facility (Facility) to replace the existing LIBOR Agreement. The Company elects the interest rate on borrowings under the Facility at the time of borrowing at either the bank's prime rate or the 30, 60, or 90 day LIBOR plus 200 basis points. The Facility expires on August 12, 2005 and is renewable for one year with the consent of both parties. The Facility requires the Company to maintain certain financial covenants including a tangible net worth ratio among other restrictions.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Statements made in this discussion, other than those concerning historical information, should be considered forward-looking and subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated. This notice is intended to take advantage of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to such forward-looking statements. Risks and uncertainties include, but are not limited to, hiring and maintaining qualified employees, legislative and judicial reforms which could increase the cost of our services to our customers and make the use of staffing service providers less beneficial, the proper functioning of our management information systems and the continuing economic recession.

Results of Operations:

The following discussion compares the quarter ended June 29, 2003 to the quarter ended June 30, 2002, and June 29, 2003 year to date to June 30, 2002 year to date and should be read in conjunction with the Condensed Financial Statements, including the related notes thereto, appearing elsewhere in this Report.

Revenues totaled \$24.3 million and \$47.5 million for the quarter and year to date periods ended June 29, 2003 as compared to \$26.2 million and \$45.5 million for the quarter and year to date periods ended June 30, 2002. Revenue decreased \$1.9 million for the quarter primarily due to a reduction in the needs of one large account and a decrease in information technology services billing. Information technology services continue to be especially hard hit by reduced corporate spending for these services in particular. Year to date commercial services revenue increased \$2.0 million due to the addition of several large industrial customers and increased account penetration in others.

Gross profit was \$3.7 million and \$7.8 million for the quarter and year to date periods ended June 29, 2003 as compare to \$4.8 million and \$8.4 million for the quarter and year to date periods ended June 30, 2002. Commercial services gross profit decreased by \$800,000 for the quarter primarily due to a \$600,000 increase in workers' compensation self-insurance reserves for adverse developments in a small group of claims originated in 2001 and 2002. Year to date gross profit for the Company's commercial services was flat for 2003 as compared to 2002. Gross profit for the Company's information technology services decreased by \$300,000 and \$600,000 for the quarter and year to date periods ended June 29, 2003 as compared to the quarter and year to date periods ended June 30, 2002.

Selling, general and administrative expenses decreased by \$574,000, or 13.0%, and \$522,000, or 6.1%, to \$3.8 million and \$8.1 million for the quarter and year to date periods ended June 29, 2003 as compared to the same periods ended June 30, 2002. The decrease reflects containment of costs and management of staff levels. Reductions include a decrease of \$140,000 and \$260,000 for the quarter and year to date periods ended June 29, 2003 as compared to the quarter and year to date periods ended June 30, 2002 related to information technology services as the Company continues to align those services with its business volume.

There was no other income (loss) for the quarter ended June 29, 2003 as compared to a \$14,000 loss for the quarter ended June 30, 2002. For the year to date period ended June 29, 2003, other income decreased \$29,000 as compared to the year to date period ended June 30, 2002. The decrease was primarily the result of receiving interest income of \$32,000 in the quarter ended March 31, 2002 that related to the Company's amended 1998 federal income tax return.

Income tax benefit of \$44,000 was recorded for the quarter ended June 29, 2003 as compared to no tax benefit for the quarter ended June 30, 2002. Income tax benefit of \$86,000 was recorded for the year to date period ended June 29, 2003, an increase of \$115,000 as compared to the year to date period ended June 30, 2002 primarily due to a \$201,000 refund received in first quarter 2002 for resolution of an IRS audit of the Company's fiscal 1998 tax return.

Table of Contents

Liquidity and Capital Resources:

The quick ratio was 2.5 to 1 and 3.2 to 1 at June 29, 2003 and December 29, 2002, respectively, and the current ratio was 2.8 to 1 and 3.5 to 1, for the same respective periods. Net working capital decreased by \$64,000 to \$10.5 million for the current year to date period. The decrease was primarily due to an increase of \$1.7 million in cash, an increase in short term debt of \$2.0 million and a decrease in accrued expenses of \$300,000. Reference should be made to the Statement of Cash Flows, which details the sources and uses of cash. Capital expenditures were \$117,000 during the current year to date period.

During the second quarter, the Company continued to maintain its Standard LIBOR Grid Note Agreement (LIBOR Agreement) that allowed borrowing for general corporate needs of up to \$5.0 million with interest calculated at the bank's then prime lending rate or, at the Company's option, a rate calculated by using a formula which added 250 basis points or 2.5% to the thirty, sixty or ninety day LIBOR. The LIBOR Agreement was a one-year demand note that was due to expire on July 22, 2003, but was renewed for an additional thirty days while the Company and the bank negotiated a new two-year \$7.5 million Committed Revolving Credit Facility (the "Facility") to replace the LIBOR Agreement. The Company and the bank entered into the Facility on August 13, 2003. The Company elects the interest rate on borrowings under the Facility at the time of borrowing at either the bank's prime rate or the thirty, sixty or ninety day LIBOR plus 200 basis points. The Facility expires on August 12, 2005, and is renewable for one year with the consent of both parties. The Facility requires the Company to maintain certain financial covenants including a tangible net worth ratio among other restrictions.

It is anticipated that existing funds, cash flows from operations and available borrowings will be sufficient to cover working capital requirements and capital expenditures for the remainder of fiscal 2003.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company does not believe that its exposure to fluctuations in interest rates is material.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation, as of a date within 90 days prior to the date of the filing of this report, of the effectiveness of our disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have each concluded that our disclosure controls and procedures are effective and sufficient to ensure that we record, process, summarize, and report information required to be disclosed by us in our periodic reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission's rules and forms.

Subsequent to the date of their evaluation, there have not been any significant changes in the Company's internal controls or in other factors to the Company's knowledge that could significantly affect these controls, including any corrective action with regard to significant deficiencies and material weaknesses. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Table of ContentsPART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's 2003 Annual Meeting of Shareholders was held on May 20, 2003. The following directors, comprising the entire Board of Directors of the Company, were re-elected to the Board of Directors for a term of one year expiring at the date of the Company's 2004 Annual Meeting of Shareholders:

	<u>Votes For</u>	<u>Withheld</u>
Charles H. Heist	2,560,493	28,006
W. David Foster	2,557,993	30,506
Charles E. Scharlau	2,572,435	16,064
Ronald K. Leirvik	2,574,935	13,564
Richard W. Roberson	2,574,935	13,564
Donna R. Moore	2,574,437	14,062

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Edgar Filing: ABLEST INC - Form 10-Q

The Company filed a report on Form 8-K dated April 30, 2003, under Item 9. The report included a press release reporting the Company's results of operations and financial condition for the quarter ended March 30, 2003.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABLEST INC.

By: /s/ Vincent J. Lombardo

Vincent J. Lombardo
Vice President, Chief Financial Officer,
Treasurer, and Secretary

Date: August 13, 2003