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ABLEST INC
Form 10-Q
August 08, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarter period ended July 1, 2001.

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Commission file number: 0-7907

Ablest Inc.

(Exact name of registrant as specified in its charter)

<u>Delaware</u>	<u>65-0978462</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
<u>1901 Ulmerton Road, Suite 300 Clearwater, Florida</u>	<u>33762</u>
(Address of principal executive offices)	(Zip Code)

727-299-1200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Former address:

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date July 28, 2000.

<u>Common stock, \$.05 par value</u>	<u>2,919,186</u>
(Class)	(Outstanding shares)

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Part I-Financial Information

ABLEST INC.

Condensed Balance Sheets

(In thousands, except share data)

	<u>July 1, 2001</u>	<u>December 31, 2000</u>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$267	406
Receivables	11,293	14,629
Prepaid expenses and other	574	359
Deferred income taxes	2,548	2,549
<hr/>		
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Total current assets	14,682	17,943
Net property, plant and equipment	1,771	1,861
Deferred income taxes	558	105
Intangible assets, net	4,397	4,576
Net assets of discontinued operations (note 5)	419	274
<hr/>		
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	\$21,827	24,759
<hr/>		
<hr/>		
Liabilities and Stockholders		
Equity		
Current liabilities:		

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Accounts payable

\$418 487

Accrued expenses

2,971 4,635

Total current liabilities

3,389 5,122

Long-term debt, excluding
current installments

Other liabilities

122 452

Total liabilities

3,511 5,574

Stockholders' equity (note 3):

Preferred Stock of \$.05 par
value. Authorized 500,000
shares, none issued.

Common stock of \$.05 par
value. Authorized

7,500,000 shares; issued
3,293,405 shares for both 2001
and 2000

165 165

Additional paid-in capital

4,914 4,914

Retained earnings

15,332 16,168

Less notes receivable from stock
sale

(235) (235)

Less unearned restricted stock

(168) (215)

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20,008 20,797
 Less cost of common stock in
 treasury: 374,219 and 356,791
 shares for 2001 and 2000,
 respectively
 (1,692) (1,612)

Total stockholders equity
 18,316 19,185

\$21,827 24,759

See accompanying notes to condensed financial statements.

ABLEST INC.

Condensed Statements of Operations

(Unaudited)

(In thousands, except share data)

	Thirteen week period ended July 1, 2001	Thirteen week period ended July 2, 2000	Twenty-six week period ended July 1, 2001	Twenty-seven week period ended July 2, 2000
Net service revenues	\$21,021	24,906	42,867	50,799
Cost of services				
16,641 19,349 33,953 39,370				

Gross profit

4,380 5,557 8,914 11,429

Selling, general and administrative expenses

4,839 5,202 10,055 10,865

Amortization of intangible assets

92 91 183 183

Operating (loss) income

(551) 264 (1,324) 381

Other income (expense):

Interest income (expense), net

13 (21) 20 (127)

Miscellaneous, net

1 8 129

Total other income (expense), net

13 (20) 28 2

(Loss) Income before income taxes from continuing operations
(538) 244 (1,296) 383
Income tax (benefit) expense
(203) 103 (460) 167

Net (loss) earnings from continuing operations
(335) 141 (836) 216

Discontinued operations (note 5):

Adjustment of loss on sale of discontinued operations, net of
income taxes
200

200

Net (loss) earnings
\$(335) 141 (836) 416

Basic and diluted net (loss) earnings per share:

Continuing operations
\$(.12) .05 (.29) .07
Adjustment to loss on sale of discontinued operations
.07

\$(.12) .05 (.29) .14

Basic and Diluted weighted average number of common shares
outstanding
2,885,350 2,887,216 2,890,654 2,884,867

See accompanying notes to condensed financial statements.

ABLEST INC.

Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	<u>Twenty-six week period ended July 1, 2001</u>	<u>Twenty-seven week period ended July 2, 2000</u>
Cash flows from operating activities:		
Net (loss) earnings from continuing operations	\$(836)	216
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation	488	624
Amortization of intangible assets	183	183
Loss (Gain) on disposal of net property, plant and equipment	73	(113)
Deferred income taxes	(452)	(117)
Changes in assets and liabilities (see below)	1,054	(602)
<hr/>		
<hr/>		
Net cash provided by operating activities of continuing operations	510	191
<hr/>		
<hr/>		

Cash flows from investing
activities:

Additions to property, plant and
equipment

(471) (1,056)

Proceeds from disposal of
property, plant and equipment

364

Acquisitions and earnout
payments, net of cash acquired

(225)

Cash transfer from discontinued
operations (Note 5)

8,683

Net cash (used) provided by
investing activities of
continuing operations

(471) 7,766

Cash flows from financing
activities:

Proceeds from bank line of
credit borrowings

50 4,800

Repayment of bank line of
credit borrowings

(50) (14,100)

Proceeds from exercise of stock
options

78

Employee stock awards

47

Purchase of treasury shares

(80)

Net cash used by financing
activities of continuing
operations

(33) (9,222)

Net increase (decrease) in cash
from continuing operations

6 (1,265)

Net (decrease) increase in cash
 from discontinued operations
 (note 5)
 (145) 10,809
 Less amount transferred to
 continuing operations
 (8,683)

Net (decrease) increase in cash
 (139) 861
 Cash and cash equivalents at
 beginning of period
 406 562

Cash and cash equivalents at
 end of period
 \$267 1,423

Changes in assets and liabilities
 providing (using) cash:

Receivables
 \$3,336 269
 Prepaid expenses and other
 (215) (124)
 Other assets
 (4)
 Accounts payable
 (69) (1,077)
 Accrued expenses
 (1,664) 518
 Other liabilities
 (330) (188)

Total
 \$1,054 (602)

See accompanying notes to condensed financial statements

ABLEST INC.

Notes to Condensed Financial Statements

(Unaudited)

1. In the opinion of management of Ablest Inc. (the Company), the accompanying condensed financial statements contain all normal recurring adjustments necessary to fairly present the Company's financial position as of July 1, 2001 and the results of its operations and cash flows for the thirteen and twenty-six week periods ended July 1, 2001 and the thirteen and twenty-seven week periods ended July 2, 2000.
2. The results of operations for the twenty-six and thirteen week periods ended July 1, 2001 are not necessarily indicative of the results to be expected for the full year.
3. Stockholders' Equity. The changes in stockholders' equity for the thirteen week period ended July 1, 2001 are summarized as follows (in thousands, except shares):

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Stock Amount	Unearned Restricted Stock	Receivable Stock sale	Total Stockholder's Equity
Balance at December 31, 2000	\$ 165	\$ 4,914	\$ 16,168	356,791	\$(1,612)	\$(215)	\$(235)	\$ 19,185
Net earnings								
(836)								
Stock compensation awards								
47								
47								
Stock repurchase program								
17,428								
(80)								
(80)								

Balance at July 1, 2001
 \$165 \$4,914 \$15,332 374,219 \$(1,692) \$(168) \$(235) \$18,316

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4. Stock Options. For the 13 week period ended July 1, 2001, options to purchase 6,000 shares on common stock of the Company were granted pursuant to the Ablest Inc. Independent Directors Stock Option Plan. As of July 1, 2001 and December 31, 2000, the Company had exercisable options outstanding to independent directors and former employees to purchase 49,399 and 41,479 common shares, respectively at prices ranging from \$5.06 to \$10.13 per share.
 5. Discontinued Operations. On March 13, 2000 the Company sold substantially all of its industrial maintenance segment to Onyx Industrial Services, Inc. (Onyx). The base selling price was \$19,700,000 in cash plus the assumption by Onyx of certain trade liabilities of approximately \$2,600,000.

The terms of the sale include certain other provisions, which could result in additional disposition costs for the Company. Such costs include environmental remediation at certain specific industrial maintenance branches, reimbursement of any uncollectible accounts receivable acquired by Onyx and the payment of certain severance costs. In the fourth quarter of 1999, the Company recorded an estimated net loss from the sale of its industrial maintenance operations of \$7,086,000. Such loss included management's best estimate of the sale proceeds, the direct costs of the transaction, estimated costs associated with the contingencies contained in the agreement and the basis of disposed net assets as of the measurement date. At July 1, 2001, the remaining accrued loss on disposal is approximately \$868,000 and represents management's current best estimate of remaining costs associated with the transaction.

On July 24, 2001, the Company and Onyx Industrial Services (Onyx) agreed to the final settle-up and distribution of the post closing adjustments and related matters pursuant to the purchase agreement and a net payment was made to Onyx in the amount of \$495,000. A continuing reserve of approximately \$373,000 remains to cover all remaining items including the sharing of transfer taxes relating to real and personal property, future retrospective insurance program adjustments and any remaining environmental or legal matters. The Company feels that these reserves are adequate to cover all known remaining matters

During fiscal 2000, the Company recorded an adjustment to the previously recorded loss on the sale of \$185,000 (net of taxes of \$241,000) as actual amounts related to the transaction were compared to the estimates recorded in the fourth quarter of fiscal 1999.

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ABLEST INC.

Notes to Condensed Financial Statements, continued

(Unaudited)

5. Discontinued operations, continued. The net assets of discontinued operations at July 1, 2001 represent residual assets such as certain remaining property held for sale and deferred tax assets. These assets are partially offset by amounts due Onyx for certain expenditures paid by Onyx but which occurred prior to the closing and liabilities, primarily consisting of the remaining accrual for the loss on disposal.

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The deferred tax assets are expected to be utilized with the filing of the Company's 2000 tax return.

The proceeds received from the sale were used to discharge bank debt allocated to industrial maintenance and pay various transaction costs. The remaining cash of \$8,683,000 was transferred in March 2000 to continuing operations and primarily used to repay debt allocated to staffing services.

6. **Industry Segments.** Effective with the March 13, 2000 sale of its industrial maintenance operations, the Company's sole business is in providing staffing services on a temporary and contract basis. Management of the Company views its operations as having two operating segments: Commercial staffing services, consisting mostly of clerical and light industrial staffing services and Technology staffing services, consisting mostly of programmers, and systems documentation services. Staffing services for both segments are provided throughout the eastern United States and select southwestern U.S. markets.

Corporate assets not allocated consist primarily of cash equivalents, of which there were none as of July 1, 2001 or December 31, 2000. Operating segment data as of and for the thirteen and twenty-six week periods ended July 1, 2001 and the thirteen and twenty-seven week periods ended July 2, 2000, respectively, are provided on the following page.

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ABLEST INC.

Notes to Condensed Financial Statements, continued

(Unaudited)

6. **Industry Segments, continued.**

	Thirteen Week period Ended July 1, 2001	Thirteen Week period Ended July 2, 2000	Twenty-six Week period Ended July 1, 2001	Twenty-seven Week period Ended July 2, 2000
Commercial Staffing Services:				
Net service revenues	\$18,325	21,102	36,941	21,677
Cost of services	14,548	16,475	29,306	17,004
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Gross profit	3,777	4,627	7,635	4,673
Selling, general & administrative	3,001	3,158	6,305	2,996
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Operating income
 776 1,469 1,330 1,677
 Amortization

Receivables
 \$9,756 10,916

Technology Staffing Services:

Net service revenues
 \$2,696 3,803 5,926 8,019
 Cost of services
 2,092 2,874 4,647 5,997

Gross profit
 604 929 1,279 2,022
 Selling, general & administrative
 559 634 1,158 1,441

Operating income
 45 295 121 581
 Amortization
 91 91 183 183
 Receivables
 \$1,511 2,522

Operating income on this segment statement differs from the operating income reported on the Statement of Operations because it does not include some corporate expenses. These corporate items include costs associated with providing executive, administrative, information technology and human resource services to field operations. These costs are not allocated for segment purposes but have been fully charged to continuing operations in the statements of operations.

7. **New Accounting Pronouncements.** In June 2001, The Financial Accounting Standards Board (FASB) issued SFAS 141, Business Combinations , which requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method and SFAS 142, Goodwill and Other Intangible Assets , which no longer permits the amortization of goodwill over its estimated useful life but rather subjects it to an annual assessment for impairment. SFAS 141 is to be implemented for all new business combinations initiated after June 30, 2001. SFAS 142 will be effective for the Company s 2002 fiscal year starting on December 31, 2001. The Company is considering the provisions of SFAS No. 141 and No. 142 and at present has not determined the impact of adopting the new

pronouncements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE
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. Factors that could cause the Company's actual results to differ from expectations include, without limitation, the Company's ability to attract, train and retain qualified management, staff, and temporary associates, changes in economic conditions that adversely affect the level of demand for the Company's services, competitive market and pricing pressures and governmental regulations.

On March 13, 2000, the Company sold substantially all of the assets of its United States industrial maintenance operations and the stock of its wholly owned Canadian subsidiary, C. H. Heist, Ltd., to Onyx Industrial Services, Inc. Taken together, these operations comprised substantially all of the assets of the Company's industrial maintenance business.

The base selling price was \$19.7 million in cash plus the assumption by Onyx of certain trade liabilities of approximately \$2.6 million.

For financial reporting purposes, the Company's industrial maintenance business has been classified as a discontinued operation through the sale closing date of March 13, 2000. The estimated loss on disposal, which included estimated operating results through the sale date, was recorded in the fourth quarter of 1999. The following discussion and analysis of operations and financial condition pertains to the Company's staffing services segment, which constitutes the continuing operations. A separate section labeled discontinued operations is included at the end of this discussion and pertains to the industrial maintenance business.

Results of Operations:

The year to date period ended July 1, 2001 was comprised of 26 weeks compared to 27 weeks for the prior fiscal year. Both the current fiscal quarter and comparable prior year quarter were comprised of 13 weeks.

Service revenues decreased by \$3.9 million or 15.6% to \$21.0 million from \$24.9 million and by \$7.9 million or 15.6% to \$42.9 million from \$50.8 million, for the respective quarter and year to date periods ended July 1, 2001, compared to the prior year. Service revenues in the commercial staffing segment decreased by \$2.8 million or 13.2% to \$18.3 million from \$21.1 million and by \$5.9 million or 13.8% to \$36.9 million from \$42.8 million during the current quarter and year to date periods, respectively. Service revenues in the Company's information technology staffing segment declined by \$1.1 million or 29.1% to \$2.7 million from \$3.8 million and by \$2.1 million or 26.1% to \$5.9 million from \$8.0 million during the current quarter and year to date periods, respectively. Both industry segments are continuing to be negatively impacted by the economic downturn in the United States. The weakening economy is resulting in many of our customers incurring cutbacks and layoffs. Temporary staff is normally the first group to be impacted by these events. The information technology staffing segment continues to be particularly hard hit by the decline in the Internet professional services industry. This decline includes a lessening of demand for permanent placements as well as temporary or contract services. The decline for permanent placements has resulted in a year to date decrease of approximately \$338,000 in placement fees for the IT staffing segment as well as a decline of approximately \$100,000 in placement fees for the commercial staffing segments, as compared to one year earlier.

The current fiscal year to date period, which is comprised of 26 weeks compared to 27 weeks for the same period in the prior year, contributed to the year to date decline in service revenues for both segments.

Gross profit decreased by \$1.2 million or 21.2% to \$4.4 million from \$5.6 million and by \$2.5 million or 22.0% to \$8.9 million from \$11.4 million for the current fiscal quarter and year to date period, respectively, as compared to the prior year. Gross margin declined by 1.5 percentage points to 20.8% from 22.3% and by 1.7 percentage points to 20.8% from 22.5% for the current quarter and year to date periods, respectively, compared to the prior year. Gross profit in the commercial staffing services segment declined by \$850,000 or 18.4% to \$3.8 million from \$4.6 million and by \$1.7 million or 17.9% to \$7.6 million from \$9.3 million, for the same respective periods. Gross margin for the commercial staffing services segment declined by 1.3 percentage points to 20.6% from 21.9% and by 1.0 percentage point to 20.7%

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Results of Operations, continued:

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from 21.7% for the current quarter and year to date periods as compared to the same periods one year earlier. The decline in gross profit is the result of reduced service revenue, as noted previously, while the decline in gross margin is partially attributable to an increase in the percentage of total service revenues generated by the Company's Vendor-on-Premises (Point Source) programs which generate lower margins on higher volumes. These services represented 22.1% and 21.3% of total service revenues during the current quarter and year to date periods compared to 11.5% and 13.5% of total service revenues for the same periods in the prior year.

Gross profit in the Company's information technology staffing segment decreased by approximately \$325,000 or 35.0% to \$604,000 from \$929,000 and by \$743,000 or 36.7% to \$1.3 million from \$2.0 million for the respective quarter and year to date periods ended July 1, 2001 compared to the same periods one year earlier. Gross margin declined by 2.0 percentage points to 22.4% from 24.4% and by 3.6 percentage points to 21.6% from 25.2% for the respective quarter and year to date periods compared to one year earlier. The decline in gross profit is attributed to reduced service revenues while the decline in gross margin is attributed to the decline in permanent placement fees, which generate higher gross margins. Gross margin for information technology services, excluding permanent placement fees, declined by 0.5 percentage points for the current quarter and by 0.6 percentage points for the year to date period, compared to the same periods one year earlier.

Selling, general and administrative expense, exclusive of amortization expense, declined by approximately \$363,000 or 7.0% to \$4.8 million from \$5.2 million and by \$810,000 or 7.5% to \$10.1 million from \$10.9 million for the respective quarter and year to date periods ending July 1, 2001, compared to the same periods one year earlier. Contributing to this decrease is a reduction of \$111,000 in corporate expenses for the current quarter and a reduction of \$608,000 for the year to date period, compared to the same periods one year earlier. During the first two quarters of the prior year the company was in the process of selling its industrial maintenance business and relocating its former administrative office from Buffalo, New York to Clearwater, Florida. Expenses during that time period were higher than normal because of hiring and training new staff and duplication of some services during the transition period.

The Company has been evaluating its operations and under-performing offices in an effort to eliminate operating expenses without necessarily abandoning markets. Satellite offices and locations with higher performing branches nearby were targeted for realignment. During the current fiscal quarter the Company recognized \$200,000 in restructuring charges associated with the closure of five of these offices. The charges were primarily related to contractual lease obligations that continue to be incurred while the Company exits those facilities. Excluding the restructuring charges, selling, general and administrative expenses decreased by \$563,000 or 10.8% for the current quarter and \$1.0 million or 9.3% for the year to date period. The Company anticipates that it will continue to evaluate under-performing operations and make additional changes if needed.

Other income, net, increased by \$33,000 to a net other income of \$13,000 from a net other expense of \$20,000 and increased by \$26,000 to \$28,000 from \$2,000 during the current quarter and year to date periods, respectively. The increase in both the current quarter and year to date periods is primarily due to interest received from the overnight investment of surplus funds in the Corporate cash accounts.

The effective tax rate for the current quarter and year to date periods is a benefit of 37.7% and 35.5%, respectively. The effective tax rate is the result of the multiple taxing jurisdictions in which the company operates and the non-deductibility for tax purposes of certain expenses incurred by the company.

Financial Condition:

The following financial information is provided as of a balance sheet date of July 1, 2001.

The quick ratio was 3.5 to 1 and 2.9 to 1 at July 1, 2001 and December 31, 2000, respectively, and the current ratio was 4.3 to 1 compared to 3.5 to 1, for the same respective periods. Net working capital decreased by \$1.5 million during the current year. Contributing to the decrease was a reduction in accounts receivable of \$3.3 million due to the decreased level of revenue being generated during this period. This decrease was partially offset by an increase in prepaid expenses of \$215,000 and a decrease in accrued expenses of 1.7 million. The increase in prepaid expenses is attributable to the renewal of the Company's insurance program for the current year while the decrease in accrued expenses is the result of

Financial Condition (continued):

the payment of the Company's 2000 retrospective insurance program adjustment. Reference should be made to the Statement of Cash Flows, which details the sources and uses of cash.

Open credit commitments at April 1, 2001, were \$5.0 million. In January of the current year, the Company reduced its then existing open credit commitment from \$19.9 million to \$5 million to be more in line with the Company's anticipated needs. Effective July 22, 2001, the Company

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signed a new note agreement with Manufacturers and Traders Trust Company. The note agreement allows for the borrowing for general corporate needs of up to \$5 million with interest calculated at the banks then prime lending rate or, at the Company's option, using a formula which adds 250 basis points to the 30, 60 or 90 day London Interbank Offered Rate (LIBOR). The Company feels that this line will be sufficient to cover its operational funding requirements for the foreseeable future.

Capital expenditures for the current quarter were approximately \$254,000. Approximately \$207,000 of the total additions pertains to new front office automation and applicant matching software that is being implemented throughout the Company's branch operations. It is anticipated that existing funds, cash flows from operations and available borrowings will be sufficient to cover working capital and capital expenditures for fiscal 2001.

Discontinued Operations:

During the current period, there were no adjustments made to the previously estimated loss on sale of discontinued operations. The prior year adjustment of approximately \$185,000 consisted primarily of a reduction in anticipated operating losses from the measurement date of September 26, 1999, to the disposal date of March 13, 2000.

On July 24, 2001, the Company and Onyx Industrial Services (Onyx) agreed to the final settle-up and distribution of the majority of the remaining items relating to the sale of the Company's industrial maintenance operations and the stock of the Company's Canadian subsidiary, C. H. Heist, Ltd. A net payment was made to Onyx in the amount of \$495,000 to settle the net worth adjustment, uncollected accounts receivable, and vendor cut-off activity as defined in the purchase agreement dated March 13, 2000. A continuing reserve of approximately \$373,000 remains to cover all remaining items including the sharing of transfer taxes relating to real and personal property, future retrospective insurance program adjustments and any remaining environmental or legal matters. The Company feels that these reserves are adequate to cover all known remaining matters.

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Part II-Other Information

Item 6 Exhibits and Reports on Form 8-K

(A) Exhibits.

None.

(B) Reports on Form 8-K:

On April 3, 2001, the Company filed a report on form 8-K regarding a Change in Registrant's Certifying Accountants to Arthur Andersen LLP from KPMG LLP effective for the fiscal year ending December 30, 2001.

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SIGNATURES

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.

(Registrant) Date: August 6, 2001 s Mark P. Kashmanian

Mark P. Kashmanian
Chief Accounting Officer

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