

BARRETT BUSINESS SERVICES INC  
Form 10-Q  
August 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018

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 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland	52-0812977
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification No.)

8100 NE Parkway Drive, Suite 200	
Vancouver, Washington	98662
(Address of principal executive offices)	(Zip Code)

(360) 828-0700

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 1, 2018, 7,359,923 shares of the registrant’s common stock (\$0.01 par value) were outstanding.

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BARRETT BUSINESS SERVICES, INC.

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## PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements  
Barrett Business Services, Inc.

## Condensed Consolidated Balance Sheets

(Unaudited)

(In Thousands, Except Par Value)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$33,786	\$ 59,835
Trade accounts receivable, net	152,560	136,664
Income taxes receivable	2,329	1,686
Prepaid expenses and other	9,824	5,724
Investments	464	674
Restricted cash and investments	108,196	103,652
Total current assets	307,159	308,235
Investments	1,578	1,199
Property, equipment and software, net	26,148	24,909
Restricted cash and investments	314,819	291,273
Goodwill	47,820	47,820
Other assets	3,169	3,215
Deferred income taxes	7,762	5,834
	\$708,455	\$ 682,485
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$221	\$ 221
Accounts payable	3,951	5,166
Accrued payroll, payroll taxes and related benefits	186,172	181,639
Other accrued liabilities	8,944	9,024
Workers' compensation claims liabilities	102,539	97,673
Safety incentives liability	28,064	28,532
Total current liabilities	329,891	322,255
Long-term workers' compensation claims liabilities	288,275	265,844
Long-term debt	4,061	4,171
Customer deposits and other long-term liabilities	1,353	1,381
Total liabilities	623,580	593,651
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,311		
and 7,301 shares issued and outstanding	73	73

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Additional paid-in capital	14,827	12,311
Accumulated other comprehensive loss	(6,369 )	(1,430 )
Retained earnings	76,344	77,880
Total stockholders' equity	84,875	88,834
	\$708,455	\$ 682,485

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Barrett Business Services, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In Thousands, Except Per Share Amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Professional employer service fees	\$ 197,277	\$ 187,718	\$ 386,239	\$ 359,927
Staffing services	34,326	37,856	69,340	75,644
Total revenues	231,603	225,574	455,579	435,571
<b>Cost of revenues:</b>				
Direct payroll costs	26,020	28,486	52,423	57,196
Payroll taxes and benefits	98,249	93,946	222,437	209,346
Workers' compensation	58,854	58,928	115,976	114,365
Total cost of revenues	183,123	181,360	390,836	380,907
Gross margin	48,480	44,214	64,743	54,664
Selling, general and administrative expenses	35,614	28,060	65,043	54,670
Depreciation and amortization	1,274	985	2,278	1,927
Income (loss) from operations	11,592	15,169	(2,578 )	(1,933 )
<b>Other income (expense):</b>				
Investment income, net	2,201	1,392	4,220	1,550
Interest expense	(68 )	(62 )	(110 )	(145 )
Other, net	(12 )	(4 )	4	(4 )
Other income, net	2,121	1,326	4,114	1,401
Income (loss) before income taxes	13,713	16,495	1,536	(532 )
Provision for (benefit from) income taxes	2,473	5,369	(581 )	(431 )
Net income (loss)	\$ 11,240	\$ 11,126	\$ 2,117	\$ (101 )
Basic income (loss) per common share	\$ 1.54	\$ 1.53	\$ 0.29	\$ (0.01 )
<b>Weighted average number of basic common shares</b>				
outstanding	7,310	7,254	7,307	7,252
Diluted income (loss) per common share	\$ 1.46	\$ 1.47	\$ 0.28	\$ (0.01 )
<b>Weighted average number of diluted common</b>				
shares outstanding	7,675	7,550	7,658	7,252
Cash dividends per common share	\$ 0.25	\$ 0.25	\$ 0.50	\$ 0.50

The accompanying notes are an integral part of these condensed consolidated financial statements.



Barrett Business Services, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In Thousands)

	Three Months Ended June 30,	
	2018	2017
Net income	\$11,240	\$11,126
Unrealized gains (losses) on investments, net of tax of (\$373) and \$91 in 2018 and 2017, respectively	(975 )	133
Comprehensive income	\$10,265	\$11,259
	Six Months Ended June 30,	
	2018	2017
Net income (loss)	\$2,117	\$(101 )
Unrealized gains (losses) on investments, net of tax of (\$1,928) and \$77 in 2018 and 2017, respectively	(4,939 )	113
Comprehensive income (loss)	\$(2,822 )	\$12

The accompanying notes are an integral part of these condensed consolidated financial statements.

Barrett Business Services, Inc.

Condensed Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2018 and 2017

(Unaudited)

(In Thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
Balance, December 31, 2016	7,244	\$ 72	\$ 9,638	\$ (3 )	\$ 59,986	\$ 69,693
Common stock issued on exercise of options						
and vesting of restricted stock units	14	1	144	—	—	145
Common stock repurchased on vesting of						
restricted stock units	(2 )	—	(134 )	—	—	(134 )
Share-based compensation expense	—	—	1,772	—	—	1,772
Cash dividends on common stock	—	—	—	—	(3,625 )	(3,625 )
Unrealized gain on investments, net of tax	—	—	—	113	—	113
Net loss	—	—	—	—	(101 )	(101 )
Balance, June 30, 2017	7,256	\$ 73	\$ 11,420	\$ 110	\$ 56,260	\$ 67,863
Balance, December 31, 2017	7,301	\$ 73	\$ 12,311	\$ (1,430 )	\$ 77,880	\$ 88,834
Common stock issued on exercise of options						
and vesting of restricted stock units	12	—	101	—	—	101
Common stock repurchased on vesting of						
restricted stock units	(2 )	—	(168 )	—	—	(168 )
Share-based compensation expense	—	—	2,583	—	—	2,583
Cash dividends on common stock	—	—	—	—	(3,653 )	(3,653 )
Unrealized loss on investments, net of tax	—	—	—	(4,939 )	—	(4,939 )
Net income	—	—	—	—	2,117	2,117
Balance, June 30, 2018	7,311	\$ 73	\$ 14,827	\$ (6,369 )	\$ 76,344	\$ 84,875

The accompanying notes are an integral part of these condensed consolidated financial statements.

Barrett Business Services, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In Thousands)

	Six Months Ended	
	June 30,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$2,117	\$(101 )
<b>Reconciliations of net income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization	2,278	1,927
Losses (gains) recognized on investments	38	(76 )
Share-based compensation	2,583	1,772
<b>Changes in certain operating assets and liabilities:</b>		
Trade accounts receivable	(15,896 )	(20,657 )
Income taxes receivable	(643 )	—
Prepaid expenses and other	(4,100 )	(4,683 )
Accounts payable	(1,215 )	1
Accrued payroll, payroll taxes and related benefits	4,533	13,872
Other accrued liabilities	(80 )	217
Income taxes payable	—	(2,867 )
Workers' compensation claims liabilities	27,341	23,676
Safety incentives liability	(468 )	1,249
Customer deposits, long-term liabilities and other assets, net	(27 )	(180 )
Net cash provided by operating activities	16,461	14,150
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(3,517 )	(2,289 )
Purchase of investments	(1,401 )	(2,240 )
Proceeds from sales and maturities of investments	1,369	7,002
Purchase of restricted investments	(103,388)	(253,187)
Proceeds from sales and maturities of restricted investments	32,749	12,023
Net cash used in investing activities	(74,188 )	(238,691)
<b>Cash flows from financing activities:</b>		
Proceeds from credit-line borrowings	8,500	24,899
Payments on credit-line borrowings	(8,500 )	(24,899 )
Payments on long-term debt	(110 )	(129 )
Common stock repurchased on vesting of restricted stock units	(168 )	(134 )
Dividends paid	(3,653 )	(3,625 )
Proceeds from exercise of stock options and vesting of restricted stock units	101	145
Net cash used in financing activities	(3,830 )	(3,743 )
Net decrease in cash, cash equivalents and restricted cash	(61,557 )	(228,284)
Cash, cash equivalents and restricted cash, beginning of period	120,205	341,330
Cash, cash equivalents and restricted cash, end of period	\$58,648	\$113,046

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Barrett Business Services, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

#### Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (“BBSI”, the “Company”, “our” or “we”), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The accompanying condensed financial statements are prepared on a consolidated basis. All intercompany account balances and transactions have been eliminated in consolidation. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2017 Annual Report on Form 10-K at pages F1 – F27. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

#### Revenue recognition

Professional employer (“PEO”) services are normally used by organizations to satisfy ongoing needs related to the management of human capital and are governed by the terms of a client services agreement which covers all employees at a particular work site. Staffing revenues relate primarily to short-term staffing, contract staffing and on-site management services. The Company’s performance obligations for PEO and staffing services are satisfied, and the related revenue is recognized, as services are rendered by our workforce.

Our PEO client service agreements have a minimum term of one year, are renewable on an annual basis, and typically require 30 days’ written notice to cancel or terminate the contract by either party. In addition, our client service agreements provide for immediate termination upon any default of the client regardless of when notice is given. PEO customers are invoiced following the end of each payroll processing cycle, with payment generally due on the invoice date. Staffing customers are invoiced weekly based on agreed rates per employee and actual hours worked, typically with payment terms of 30 days. The amount of earned but unbilled revenue is classified as a receivable on the condensed consolidated balance sheets.

We report PEO revenues net of direct payroll costs because we are not the primary obligor for these payments to our clients’ employees. Direct payroll costs include salaries, wages, health insurance, and employee out-of-pocket expenses incurred incidental to employment. Safety incentives represent consideration payable to PEO customers, and therefore safety incentive costs are also netted against PEO revenue.

#### Cost of revenues

Our cost of revenues for PEO services includes employer payroll-related taxes and workers' compensation costs. Our cost of revenues for staffing services includes direct payroll costs, employer payroll-related taxes, employee benefits, and workers' compensation costs. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare taxes, federal and state unemployment taxes, and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by our customer. Workers' compensation costs consist primarily of claims reserves, claims administration fees, legal fees, medical cost containment ("MCC") expense, state administrative agency fees, third-party broker commissions, risk manager payroll, premiums for excess insurance, and the fronted insurance program, and costs associated with operating our two wholly owned insurance companies, Associated Insurance Company for Excess ("AICE") and Ecole Insurance Company ("Ecole").

#### Cash and cash equivalents

We consider non-restricted short-term investments, which are highly liquid, readily convertible into cash, and have maturities at acquisition of less than three months, to be cash equivalents for purposes of the condensed consolidated statements of cash flows and condensed consolidated balance sheets. The Company maintains cash balances in bank accounts that normally exceed FDIC insured limits. The Company has not experienced any losses related to its cash concentration.

#### Investments

The Company classifies investments as trading or available-for-sale. We had no trading securities at June 30, 2018 and December 31, 2017. The Company's investments are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of investments are included in investment income in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

#### Restricted cash and investments

The Company holds restricted cash and investments primarily for the future payment of workers' compensation claims. Restricted investments have been categorized as available-for-sale. They are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Management considers available evidence in evaluating potential impairment of restricted investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of restricted investments are included in investment income in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

#### Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$432,000 and \$265,000 at June 30, 2018 and December 31, 2017, respectively. We make estimates of the collectability of our accounts receivable for services provided to our customers. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### Workers' compensation claims liabilities

Our workers' compensation claims liabilities do not represent an exact calculation of liability but rather management's best estimate, utilizing actuarial expertise and projection techniques, at a given reporting date. The estimated liability for open workers' compensation claims is based on an evaluation of information provided by our third-party administrators for workers' compensation claims, coupled with an actuarial estimate of future adverse loss development with respect to reported claims and incurred but not reported claims (together, "IBNR"). Workers' compensation claims liabilities included case reserve estimates for reported losses, plus additional amounts for estimated IBNR claims, MCC and legal costs, and unallocated loss adjustment expenses. These estimates are reviewed at least quarterly and adjustments to estimated liabilities are reflected in current operating results as they become known.



The process of arriving at an estimate of unpaid claims and claims adjustment expense involves a high degree of judgment and is affected by both internal and external events, including changes in claims handling practices, changes in reserve estimation procedures, inflation, trends in the litigation and settlement of pending claims, and legislative changes.

Our estimates are based on informed judgment, derived from individual experience and expertise applied to multiple sets of data and analyses. We consider significant facts and circumstances known both at the time that loss reserves are initially established and as new facts and circumstances become known. Due to the inherent uncertainty underlying loss reserve estimates, the expenses incurred through final resolution of our liability for our workers' compensation claims will likely vary from the related loss reserves at the reporting date. Therefore, as specific claims are paid out in the future, actual paid losses may be materially different from our current loss reserves.

The Company's independent actuary provides management with an estimate of the current and long-term portions of our total workers' compensation claims, which is an important factor in our process for estimating workers' compensation claims liabilities. The current portion represents the independent actuary's best estimate of payments the Company will make related to workers' compensation claims over the ensuing twelve months.

A basic premise in most actuarial analyses is that historical data and past patterns demonstrated in the incurred and paid historical data form a reasonable basis upon which to project future outcomes, absent a material change. Significant structural changes to the available data can materially impact the reserve estimation process. To the extent a material change affecting the ultimate claim liability becomes known, such change is quantified to the extent possible through an analysis of internal Company data and, if available and when appropriate, external data. Nonetheless, actuaries exercise a considerable degree of judgment in the evaluation of these factors and the need for such actuarial judgment is more pronounced when faced with material uncertainties.

#### Safety incentives

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices and minimizing workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The safety incentive liability is estimated and accrued each month based upon contract year-to-date payroll and the then current amount of the customer's estimated workers' compensation claims reserves as established by our third party administrator. The Company provided \$28.1 million and \$28.5 million at June 30, 2018 and December 31, 2017, respectively, as an estimate of the liability for unpaid safety incentives.

#### Customer deposits

We require deposits from certain PEO customers to cover a portion of our accounts receivable due from such customers in the event of default of payment.

#### Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to the Company's stockholders.

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. generally accepted accounting principles ("GAAP") are included in comprehensive income (loss), but excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders' equity. Our other comprehensive income (loss)

comprises unrealized holding gains and losses on our available-for-sale investments.

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## Statements of cash flows

Interest paid during the six months ended June 30, 2018 totaled \$1.8 million, primarily related to prepaid fees for the Company's letter of credit. Interest paid during the six months ended June 30, 2017 did not materially differ from interest expense. Income taxes paid during the six months ended June 30, 2018 totaled \$0.1 million. Income taxes paid during the six months ended June 30, 2017 totaled \$2.4 million.

Bank deposits and other cash equivalents that are restricted for use are classified as restricted cash. The table below reconciles the cash, cash equivalents and restricted cash balances from our condensed consolidated balance sheets to the amounts reported on the condensed consolidated statements of cash flows (in thousands):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$33,786	\$ 59,835
Restricted cash, included in restricted cash and investments	24,862	60,370
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$58,648	\$ 120,205

## Basic and diluted earnings per share

Basic earnings per share are computed based on the weighted average number of common shares outstanding for each year using the treasury method. Diluted earnings per share reflect the potential effects of the exercise of outstanding stock options and the issuance of stock associated with outstanding restricted stock units. Basic and diluted shares outstanding are summarized as follows (in thousands):

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Weighted average number of basic shares outstanding	7,310	7,254	7,307	7,252
Effect of dilutive securities	365	296	351	—
Weighted average number of diluted shares outstanding	7,675	7,550	7,658	7,252

As a result of the net loss for the six months ended June 30, 2017, 294,169 potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

## Reclassifications

Due to the adoption of Accounting Standards Update ("ASU") No. 2016-18, "Statement of Cash Flows: Restricted Cash," prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash flows or stockholders' equity.

## Accounting estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates are used for fair value measurement of investments, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

#### Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, “Revenue from Contracts with Customers.” The core principle of the update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The update also requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We have adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective method. We have determined that there are no material changes to our revenue recognition policies or to our consolidated financial statements as a result of adopting the standard.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” The core principle is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new guidance, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. The Company is currently evaluating the standard but expects it to have a material impact on the Company’s assets and liabilities on the condensed consolidated balance sheets.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows: Restricted Cash.” The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We have retrospectively adopted this standard effective January 1, 2018. The Company’s balance of restricted cash and restricted cash equivalents was \$24.9 million, \$60.4 million, \$95.2 million and \$290.6 million for the periods ended June 30, 2018, December 31, 2017, June 30, 2017 and December 31, 2016, respectively. The adoption of the guidance also requires us to reconcile our cash balance on the condensed consolidated statements of cash flows to the cash balance presented on the condensed consolidated balance sheets. See “Statements of cash flows” within “Note 1 - Basis of Presentation of Interim Period Statements” for these disclosures.

## Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at June 30, 2018 and December 31, 2017 measured at fair value on a recurring basis (in thousands):

	June 30, 2018			December 31, 2017		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
<b>Current:</b>						
<b>Cash equivalents:</b>						
Money market funds	\$56	\$ —	\$56	\$121	\$ —	\$121
U.S. treasuries	—	—	—	100	—	100
<b>Total cash equivalents</b>	<b>56</b>	<b>—</b>	<b>56</b>	<b>221</b>	<b>—</b>	<b>221</b>
<b>Investments:</b>						
U.S. treasuries	344	—	344	199	—	199
Corporate bonds	61	(1 )	60	400	—	400
U.S. government agency securities	60	—	60	65	—	65
Municipal bonds	—	—	—	10	—	10
<b>Total current investments</b>	<b>465</b>	<b>(1 )</b>	<b>464</b>	<b>674</b>	<b>—</b>	<b>674</b>
<b>Long term:</b>						
<b>Investments:</b>						
U.S. treasuries	645	(7 )	638	202	(2 )	200
Mortgage backed securities	522	(14 )	508	577	(5 )	572
Corporate bonds	384	(11 )	373	419	(2 )	417
U.S. government agency securities	49	—	49	—	—	—
Asset backed securities	10	—	10	10	—	10
<b>Total long term investments</b>	<b>1,610</b>	<b>(32 )</b>	<b>1,578</b>	<b>1,208</b>	<b>(9 )</b>	<b>1,199</b>
<b>Restricted cash and investments <sup>(1)</sup>:</b>						
Corporate bonds	190,230	(4,512 )	185,718	184,808	(953 )	183,855
Mortgage backed securities	97,337	(2,610 )	94,727	86,240	(595 )	85,645
U.S. treasuries	72,776	(365 )	72,411	45,833	(143 )	45,690
U.S. government agency securities	45,592	(1,233 )	44,359	38,168	(222 )	37,946
Supranational bonds	4,763	(49 )	4,714	—	—	—
Money market funds	361	—	361	16,018	—	16,018
Municipal bonds	185	—	185	472	(14 )	458
Asset backed securities	75	(1 )	74	—	—	—
Commercial paper	—	—	—	18,973	—	18,973
<b>Total restricted cash and investments</b>	<b>411,319</b>	<b>(8,770 )</b>	<b>402,549</b>	<b>390,512</b>	<b>(1,927 )</b>	<b>388,585</b>
<b>Total investments</b>	<b>\$413,450</b>	<b>\$ (8,803 )</b>	<b>\$404,647</b>	<b>\$392,615</b>	<b>\$ (1,936 )</b>	<b>\$390,679</b>

(1) Included in restricted cash and investments within the condensed consolidated balance sheet as of June 30, 2018 is restricted cash and long term workers' compensation deposits of \$20.5 million, which is excluded from the table above. Restricted cash and investments are classified as current and noncurrent on the balance sheet based on the nature of the restriction.



The following table summarizes the Company's investments at June 30, 2018 and December 31, 2017 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2018					December 31, 2017				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other <sup>(1)</sup>	Total Recorded Basis	Level 1	Level 2	Level 3	Other <sup>(1)</sup>
<b>Cash equivalents:</b>										
Money market funds	\$56	\$ —	\$ —	\$ —	\$ 56	\$121	\$ —	\$ —	\$ —	\$ 121
U.S. treasuries	—	—	—	—	—	100	—	100	—	—
<b>Investments:</b>										
U.S. treasuries	982	—	982	—	—	399	—	399	—	—
Mortgage backed securities										