

ABLEST INC  
Form 10-Q  
August 11, 2006

**Table of Contents**

**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 JULY 2, 2006**

**or**

**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.)*

**1511 N. Westshore Boulevard, Suite 900**

**Tampa, Florida 33607**

**(813) 830-7700**

*(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   
Indicate by check mark 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): the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  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

The number of outstanding shares of the Registrant's Common Stock at August 10, 2006 was 2,930,639.

---

ABLEST INC.  
Table of Contents

Item No.	Page
<b>PART I FINANCIAL INFORMATION</b>	
<b><u>1. Financial Statements:</u></b>	
<u>Condensed Balance Sheets as of July 2, 2006 and December 25, 2005 (Unaudited)</u>	3
<u>Condensed Statements of Income for the thirteen and twenty seven week period ended July 2, 2006 and for the thirteen and twenty six week period ended June 26, 2005 (Unaudited)</u>	4
<u>Condensed Statements of Cash Flows for the twenty seven and twenty six week periods ended July 2, 2006 and June 26, 2005 (Unaudited)</u>	5
<u>Notes to Condensed Financial Statements (Unaudited)</u>	6
<b><u>2. Management's Discussion and Analysis of Results of Operations and Financial Condition</u></b>	10
<b><u>3. Quantitative and Qualitative Disclosure about Market Risk</u></b>	13
<b><u>4. Controls and Procedures</u></b>	14
<b><u>PART II OTHER INFORMATION</u></b>	
<b><u>1. Legal Proceedings</u></b>	15
<b><u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	15
<b><u>3. Defaults Upon Senior Securities</u></b>	15
<b><u>4. Submission of Matters to a Vote of Security Holders</u></b>	15
<b><u>5. Other Information</u></b>	15
<b><u>6. Exhibits</u></b>	15
<b><u>SIGNATURES</u></b>	16
<u>Ex-31.1 Section 302 Certification</u>	
<u>Ex-31.2 Section 302 Certification</u>	
<u>Ex-32.1 Section 906 Certification</u>	
<u>Ex-32.2 Section 906 Certification</u>	

**Table of Contents**

## ITEM 1. FINANCIAL STATEMENTS

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

	July 2, 2006	December 25, 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,698	\$ 1,931
Accounts receivable, net	16,355	18,760
Prepaid expenses and other current assets	704	469
Current deferred tax asset	1,246	1,246
<b>Total current assets</b>	<b>22,003</b>	<b>22,406</b>
Property and equipment, net	2,329	1,732
Deferred tax asset	681	863
Goodwill	1,283	1,283
Other assets	245	171
<b>Total assets</b>	<b>\$ 26,541</b>	<b>\$ 26,455</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 739	\$ 841
Accrued insurance	2,235	2,536
Accrued wages	2,500	2,738
Other current liabilities	469	514
<b>Total current liabilities</b>	<b>5,943</b>	<b>6,629</b>
Other liabilities	198	432
<b>Total liabilities</b>	<b>6,141</b>	<b>7,061</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock of \$.05 par value; 500,000 shares authorized, none issued or outstanding at July 2, 2006 and December 25, 2005		
Common stock of \$.05 par value; 7,500,000 shares authorized, 3,387,118 and 3,334,344 shares issued and outstanding including shares held in treasury at July 2, 2006 and December 25, 2005, respectively	169	167

Edgar Filing: ABLEST INC - Form 10-Q

Additional paid-in capital	5,636	5,265
Retained earnings	16,705	16,072
Treasury stock at cost; 457,729 shares held at July 2, 2006 and December 25, 2005	(2,110)	(2,110)
Total stockholders' equity	20,400	19,394
Total liabilities and stockholders' equity	\$ 26,541	\$ 26,455

See accompanying Notes to Financial Statements

3

---

**Table of Contents**

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

	For the Thirteen Week Periods Ended		For the Twenty Seven Week Period Ended	For the Twenty Six Week Period Ended
	July 2, 2006	June 26, 2005	July 2, 2006	June 26, 2005
Net service revenues	\$ 34,340	\$ 32,751	\$ 70,204	\$ 63,586
Cost of services	28,398	27,009	58,151	52,867
Gross profit	5,942	5,742	12,053	10,719
Selling, general and administrative expenses	5,466	4,815	11,017	9,364
Operating income	476	927	1,036	1,355
Other:				
Interest income, net	10		9	
Miscellaneous income (expense), net	19		21	(3)
Other income (expense)	29		30	(3)
Income before income taxes	505	927	1,066	1,352
Income tax expense	220	353	433	514
Net income	\$ 285	\$ 574	\$ 633	\$ 838
Basic net income per common share	\$ 0.10	\$ 0.20	\$ 0.22	\$ 0.29
Diluted net income per common share	\$ 0.10	\$ 0.20	\$ 0.21	\$ 0.29

Weighted average number of  
common shares in computing net

Edgar Filing: ABLEST INC - Form 10-Q

income per common				
Basic	2,933,268	2,863,509	2,915,761	2,859,043
Diluted	2,971,642	2,940,368	2,952,721	2,933,530

See accompanying Notes to Financial Statements

4

---

**Table of Contents**

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

	For the Twenty Seven Week Period Ended July 2, 2006	For the Twenty Six Week Period Ended June 26, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 633	\$ 838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	228	167
Loss on disposal of property and equipment	11	
Deferred income taxes	182	487
Stock compensation	127	268
Changes in assets and liabilities (see below)	1,422	(69)
 Net cash provided by operating activities	 2,603	 1,691
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(836)	(162)
 Net increase in cash	 1,767	 1,529
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	 1,931	 1,357
 <b>CASH AND CASH EQUIVALENTS END OF PERIOD</b>	 \$ 3,698	 \$ 2,886
 Changes in assets and liabilities providing (using) cash:		
Accounts receivable, net	\$ 2,405	\$ 1,407
Prepaid expenses	(235)	(529)
Other assets	(74)	
Accounts payable	(102)	143
Accrued insurance	(301)	(1,428)
Accrued wages	(238)	374
Other current liabilities	(45)	81
Other liabilities	12	(117)
 Total change in assets and liabilities providing cash	 \$ 1,422	 \$ (69)





**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 58 service locations in the Eastern United States and selected Southwestern markets with the capability to supply staffing services for the clerical, light industrial, information technology, finance and accounting needs of their customers. Positions often filled include, but are not limited to, data entry, office administration, telemarketing, light industrial assembly, order picking and shipping, network administration, database administration, program analyst (both mainframe and client server), web development, project management, technical writing, accounting, financial analysis and internal auditing. The Company does not service any specific industry or field; instead, its services are provided to a broad-based customer list.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***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 25, 2005. 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 thirteen and twenty seven week period ended July 2, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006.

***Fiscal Periods***

The Company s fiscal year to date for 2006 and 2005 consists of twenty seven and twenty six weeks, respectively.

***Cash Equivalents***

All highly liquid investments with original maturities of three months or less are considered cash equivalents. As of July 2, 2006, there was \$1.5 million in cash equivalents. There were no equivalents as of December 25, 2005.

***Revenue Recognition***

The Company s revenues are derived from providing staffing services to its customers. Substantially all revenue is billed on a direct cost plus markup basis. Revenue is recognized at the time the service is performed. In addition, the Company bills revenues under piecework contracts and permanent placement services. Piecework contracts are billed to the customer on a cost per unit basis versus an hourly basis. Revenue from piecework contracts is recognized at the time service is performed. Permanent placement services are fee-based services to recruit and fill regular staff positions for customers. Revenue from permanent placement services is recognized when a candidate begins full-time employment.

***Allowance for Doubtful Accounts***

The Company must make estimates of the collectibility of accounts receivables. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current

**Table of Contents**

ABLEST INC.  
Notes to Condensed Financial Statements  
(Unaudited)

economic trends and changes in the customer's payment tendencies when evaluating the adequacy of the allowance for doubtful accounts. The Company maintains an allowance for probable losses based upon management's analysis of historical write-off levels, current economic trends, routine assessments of its clients' financial strength and any other known factors impacting collectibility. Recoveries are recognized in the period in which they are received. The ultimate amount of accounts receivable that become uncollectible could differ from those estimated; however, such losses have been generally within management's expectations.

***Self-Insurance Reserves***

The Company is self-insured for the deductible amount of its general liability and workers' compensation coverages. To derive an estimate of the Company's ultimate claims liability, established loss development factors are applied to current claims information. The Company maintains reserves for its workers' compensation using actuarial methods to estimate the remaining undiscounted liability for the deductible portion of these claims, including those incurred but not reported. Annually, an independent actuary calculates an estimated ultimate liability and determines loss development factors for future periods. The calculated ultimate liability is then reduced by cumulative claims payments to determine the required reserve. Management evaluates the accrual on a quarterly basis and adjusts as needed to reflect the required reserve calculation. Whereas management believes the recorded liabilities are adequate, there are inherent limitations in the estimation process whereby future actual losses may differ from projected loss rates, which could materially affect the financial condition and results of operations of the Company. There can be no assurance that changes to management's estimates will not occur due to limitations inherent in the estimation process.

***Goodwill and Other Intangible Assets***

The Company has adopted Financial Accounting Standards No. 142 (SFAS No. 142), *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed at least annually for impairment. SFAS No. 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment; while the second phase (if necessary), measures the impairment. No impairment losses were recognized by the Company during the periods ended July 2, 2006 or June 26, 2005.

At July 2, 2006, the Company did not have indefinite lived intangible assets other than goodwill and did not have any intangible assets with definite lives.

***Impairment of Long-Lived Assets***

The Company has adopted Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and also requires a company to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment losses were recognized by the Company during the periods ended July 2, 2006 or June 26, 2005.

***Income Taxes***

Income taxes are accounted for by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to operating loss and credit carryforwards and differences between the financial

**Table of Contents**

ABLEST INC.  
Notes to Condensed Financial Statements  
(Unaudited)

statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers, within each taxing jurisdiction, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the years in which the deferred tax assets are deductible, management provided valuation allowances as needed for those deferred tax assets that were not expected to be realized.

***Income Per Common Share***

Basic income per common share is computed by using the weighted average number of common shares outstanding. Diluted income per share is computed by using the weighted average number of common shares outstanding plus the dilutive effect, if any, of stock options.

***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates made in the preparation of the financial statements include revenue recognition, the allowance for doubtful accounts, deferred tax assets, goodwill impairment and workers' compensation reserves.

***Stock Option Plans***

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (SFAS 123 (R)). SFAS 123 (R) replaces FASB Statement No. 123

Accounting for Stock-Based Compensation, and supersedes APB Opinion No 25 Accounting for Stock Issued to Employees. The statement establishes standards for accounting for share-based payment transactions. Share-based payment transactions are those in which an entity exchanges its equity instruments for goods or services, or in which an entity incurs liabilities in exchange for goods or services, which are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date (with limited exceptions). That cost will be recognized in the entity's financial statements over the period during which the employee is required to provide services in exchange for the award.

The Company has adopted SFAS 123(R) in the first quarter of fiscal 2006, however, as of

**Table of Contents**

ABLEST INC.  
Notes to Condensed Financial Statements  
(Unaudited)

November 3, 2005, the Board of Directors of the Company accelerated the vesting of all unvested stock options. By accelerating the vesting of these options, the Company has no obligations outstanding which would require compensation expense under SFAS 123(R) to be recorded.

Prior to the adoption of SFAS 123(R), the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense would be recorded on the date of the grant if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards No. 123 ( SFAS No. 123 ) Accounting for Stock Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

**3. SHORT-TERM BORROWINGS**

On August 2, 2005, the Company entered into a Modification Agreement with Manufacturers and Traders Trust Company ( M&T ) that extends for three years the \$7,500,000 Committed Revolving Credit Facility ( Facility ) originally signed 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 (as defined in the agreement) plus 125 basis points, a reduction of 75 basis points from the expiring agreement. The Facility expires on August 12, 2008 and is renewable with the consent of both parties. The Company believes that the Facility will be sufficient to cover foreseeable operational funding requirements until expiration of the Facility. The Facility requires the Company to maintain certain financial covenants including a tangible net worth ratio among other restrictions. The most restrictive covenant is the limitation of total indebtedness which caps total funded indebtedness to 3.5 times the four most recent quarter's EBITDA, as defined in the agreement. During the second quarter of 2006 the Company had no borrowings against the Facility and was in compliance with all covenants. It is anticipated that existing funds, cash flows from operations and available borrowings will be sufficient to cover working capital requirements, organic growth and capital expenditure requirements.

**4. STOCKHOLDERS' EQUITY**

The changes in stockholders' equity for the twenty-seven week period ended July 2, 2006 are summarized as follows. Amounts are presented in thousands, except share data.

	Common stock	Additional paid-in capital	Retained earnings	Treasury Shares	Treasury stock	Total stockholders equity
Balance at December 25, 2005	\$ 167	\$ 5,265	\$ 16,072	457,729	\$(2,110)	\$ 19,394
Net Income			633			633
Restricted Stock Plan	2	359				361
Directors Restricted Stock Plan		12				12

Edgar Filing: ABLEST INC - Form 10-Q

Balance at July 2, 2006	\$ 169	\$5,636	\$ 16,705	457,729	\$(2,110)	\$20,400
-------------------------	--------	---------	-----------	---------	-----------	----------

9

---



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

Statements made in this Quarterly Report on Form 10-Q, other than those concerning historical information, should be considered forward-looking and are 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. These forward-looking statements (such as when we describe what will, may or should occur, what we plan, intend, estimate, believe or anticipate will occur, and other similar statements) include, but are not limited to, statements regarding future revenues and operating results; future prospects; anticipated benefits of proposed (or future) new branches, products or services; growth; the capabilities and capacities of our business operations and information systems; financing needs or plans; any financial or other guidance and all statements that are not based on historical fact, but rather reflect our current expectations concerning future results and events. We make certain assumptions when making forward-looking statements, any of which could prove inaccurate, including, but not limited to, statements about our business plans. The ultimate correctness of these forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements. The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those expressed or implied in our forward-looking statements: business conditions and competitive factors in our customers' industries, our ability to successfully expand into new markets and offer new service lines, the availability of qualified personnel, the non-exclusive, short-term nature of our customers' commitments, economic and political conditions and unemployment levels in the United States and other countries, increases in payroll related costs, including state unemployment insurance and workers compensation insurance, obsolescence or impairment of our information systems, our ability to successfully invest in and implement information systems, the cost of and our ability to comply with Section 404 of the Sarbanes-Oxley Act of 2002, liabilities under our self-insurance program, and other factors that we may not have currently identified or quantified.

All forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q, and we do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur or which we hereafter become aware of. You should read this document and the documents that we incorporate by reference into this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

**Critical Accounting Policies**

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions affecting the amounts and disclosures reported within those financial statements. These estimates are evaluated on an ongoing basis by management and generally affect revenue recognition, collectibility of accounts receivable, workers' compensation costs, income taxes and goodwill. Management's estimates and assumptions are based on historical experience and other factors believed to be reasonable under the circumstances. However, actual results under circumstances and conditions different than those assumed could result in differences from the estimated amounts in the financial statements.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The Company's critical accounting policies are described in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and in the notes to the consolidated financial statements in the Company's previously filed Annual Report on Form 10-K for the fiscal year ended December 25, 2005. There were no changes to these policies during the twenty seven week period ended July 2, 2006.

**Results of Operations:**

The following discussion compares the quarter ended July 2, 2006 to the quarter ended June 26, 2005, and should be read in conjunction with the Condensed Financial Statements, including the related notes thereto, appearing elsewhere in this Report.

***Three Months Quarter Ended July 2, 2006 Compared with June 26, 2005***

Revenues increased to \$34.3 million for the thirteen week quarter period ended July 2, 2006 as compared to \$32.8 million for the thirteen week quarter period ended June 26, 2005, respectively. Branches opened in 2006 and 2005 contributed over 75% of the increase quarter to date. The increase in account penetration, strategic marketing and greater staffing requirements from existing clients also played a role in the overall growth of 4.9%.

Gross profit was \$5.9 million for the thirteen week second quarter period of 2006 compared to \$5.7 million for the thirteen week second quarter period in 2005, an increase of \$200 thousand or 3.5% for the quarter. The improvement in quarter to date gross profit is mainly attributable to the increased revenue levels and management's decision to eliminate businesses with higher risk and lower margins. The increase was offset by an increase in workers compensation self insurance claims. Workers' compensation self insurance expense was \$633 thousand higher than the previous quarter to date period 2005. This quarter to date increase, compared to 2005, is primarily due to an increase in the severity of claims and probable and final claim outcomes settled in 2006. Gross profit as a percentage of revenue was 17.3% for the quarter period as compared to 17.5% prior year's quarter period, respectively. The decrease in the quarter as a percentage of revenue is due to higher temporary staff pay and new branch growth.

Selling, general and administrative expenses increased by \$651 thousand or 13.5% for the quarter period ended July 2, 2006, as compared to the same period ended June 26, 2005. Approximately 43% of the quarter to date increase is attributable to the newly opened locations referenced above. In addition, this increase is a result of a higher dollar volume of salaries and related expenses resulting from additional staff in our branch offices. This is considered a deliberate means to drive more sales and improve service. Staff additions represent important investments, which will support the seasonal increase in demand typically found in the third and fourth fiscal quarters.

Other income, net increased due to cash equivalent earnings and other miscellaneous income.

Income tax expense of \$220 thousand was recorded for the quarter ended July 2, 2006, as compared to \$353 thousand for the quarter ended June 26, 2005. The effective tax rates were 43.6% and 38.1%, respectively. The increase in the tax rate is due to deferred timing differences.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION*****Six Months Ended July 2, 2006 Compared with June 26, 2005***

Revenues increased to \$70.2 million for the twenty seven week year to date period ended July 2, 2006 as compared to \$63.6 million for the twenty six week year to date period ended June 26, 2005, respectively. Branches opened in 2006 and 2005 contributed over 44% of the increase year to date. The increase in account penetration, strategic marketing and greater staffing requirements from existing clients also played a role in the overall growth of 10.4% as well as the additional week of operations in the first quarter for 2006.

Gross profit was \$12.1 million for the twenty seven week year to date period of 2006 compared to \$10.7 million for the twenty six week year to date period in 2005, an increase of \$1.4 million or 12.4% for the year to date period. The improvement in year to date gross profit is mainly attributable to the increased revenue levels and management's decision to eliminate businesses with higher risk and lower margins, as well as the additional week of operations in the first quarter 2006. This was offset by an increase in workers' compensation self insurance claims. Workers' compensation self insurance expense was \$759 thousand higher than the previous year to date period 2005. This year to date increase, compared to 2005, is primarily due to an increase in the severity of claims and probable and final claim outcomes settled in 2006. Gross profit as a percentage of revenue was 17.3% for the year to date period as compared to 16.9% for the prior year's year to date period. For the year to date period, the increase is a direct result of the elimination of lower margin business.

Selling, general and administrative expenses increased by \$1.7 million or 17.7% for the year to date period ended July 2, 2006, as compared to the same period ended June 26, 2005. Approximately 23% of the year to date increase is attributable to the newly opened locations referenced above. In addition, this increase is a result of a higher dollar volume of salaries and related expenses resulting from additional staff in our branch offices. This is considered a deliberate means to drive more sales and improve service. Staff additions represent important investments, which will support the seasonal increase in demand typically found in the third and fourth fiscal quarters.

Other income, net increased due to cash equivalent earnings and other miscellaneous income.

Income tax expense of \$433 thousand was recorded for the year ended July 2, 2006, as compared to \$514 thousand for the year ended June 26, 2005. The effective tax rates were 40.6% and 38.0%, respectively. The increase in the tax rate is due to deferred timing differences.

**Liquidity and Capital Resources:**

The quick ratio was 3.4 to 1 and 3.1 to 1 at July 2, 2006 and December 25, 2005, respectively, and the current ratio was 3.7 to 1 and 3.4 to 1, for the same respective periods. The primary source of funding is generated from results of operations. Net working capital increased by \$283 thousand to \$16.1 million for the current year to date period as a result of operations. Reference should be made to the Statement of Cash Flows, which details the sources and uses of cash.

Capital expenditures year-to-date were approximately \$836 thousand. Subsequent to July 2, 2006 the Company has purchased approximately \$205 thousand, and plans to purchase approximately an additional \$165 thousand over the rest of the fiscal year, of new front and back office software and the related required hardware.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

On August 2, 2005, the Company entered into a Modification Agreement with Manufacturers and Traders Trust Company ( M&T ) that extends for three years the \$7,500,000 Committed Revolving Credit Facility ( Facility ) originally signed 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 125 basis points, a reduction of 75 basis points from the expiring agreement. The Facility expires on August 12, 2008 and is renewable with the consent of both parties. The Company believes that the Facility will be sufficient to cover foreseeable operational funding requirements until expiration of the Facility. The Facility requires the Company to maintain certain financial covenants including a tangible net worth ratio among other restrictions. The most restrictive covenant is the limitation of total indebtedness which caps total funded indebtedness to 3.5 times the four most recent quarter's EBITDA, as defined in the agreement. The Company had no borrowings during the period ended July 2, 2006. It is anticipated that existing funds, cash flows from operations and available borrowings will be sufficient to cover working capital requirements, organic growth and capital expenditure requirements.

**Outlook**

Growth continued at an even pace in 2006 and was strongest in the temporary staffing division. The growth in our professional services division will largely depend on our ability to penetrate client relationships and customer project related spending.

**Material Commitments**

The Company's contractual cash obligations as of July 2, 2006 are summarized in the table below:

	Payable during 2006	Payable 2007 - 2008	Payable 2009 - 2011	Payable after 2011	Total
Operating leases (1)	\$596	\$1,793	\$1,391	\$406	\$4,186
Capital expenditures (2)	165				165
<b>Total</b>	<b>\$761</b>	<b>\$1,793</b>	<b>\$1,391</b>	<b>\$406</b>	<b>\$4,351</b>

(1) Includes minimum lease payment obligations for equipment and real property leases in effect as of July 2, 2006.

(2) Purchase obligations for capital expenditure projects in progress.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

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



**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

We carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective for the period covered by this quarterly report 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 changes in the Company's internal controls over financial reporting or in other factors to the Company's knowledge that could materially affect, or is reasonably likely to materially affect the internal control over financial reporting, 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.

**Table of Contents**

PART II  
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY 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

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

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.

**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/ John Horan*

John Horan

Vice President and Chief Financial  
Officer

(On behalf of the Registrant and as  
Principal Financial Officer)

Date: August 10, 2006



**Table of Contents**

**Exhibit Index**

Exhibit Number	Description of Document
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.