

BARRETT BUSINESS SERVICES INC
Form 10-Q
August 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2006

Commission File No. 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0812977
(IRS Employer
Identification No.)

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

98662
(Zip Code)

(360) 828-0700

(Registrant's telephone number, including area code)

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, accelerated filer, or non-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 []

Number of shares of common stock, \$.01 par value, outstanding at July 31, 2006 was 11,245,325 shares.

BARRETT BUSINESS SERVICES, INC.

INDEX

	<u>Page</u>
Part I - Financial Information	
Item 1. Unaudited Interim Consolidated Financial Statements	
Consolidated Balance Sheets - June 30, 2006 and December 31, 2005	3
Consolidated Statements of Operations - Three Months Ended June 30, 2006 and 2005	4
Consolidated Statements of Operations - Six Months Ended June 30, 2006 and 2005	5
Consolidated Statements of Cash Flows - Six Months Ended June 30, 2006 and 2005	6
Notes to Unaudited Interim Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
Part II - Other Information	
Item 1A. Risk Factors	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 6. Exhibits	24
Signatures	25
Exhibit Index	26

Part I Financial Information

Item 1. Financial Statements

BARRETT BUSINESS SERVICES, INC.
Consolidated Balance Sheets
(Unaudited)
(In thousands, except per share amounts)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 57,604	\$ 61,361
Marketable securities	3,545	3,548
Trade accounts receivable, net	33,023	26,328
Prepaid expenses and other	4,538	2,514
Deferred income taxes	6,171	5,864
Workers' compensation receivables for insured claims	242	242
Total current assets	105,123	99,857
Marketable securities	401	396
Goodwill, net	26,536	22,516
Intangibles, net	89	5
Property, equipment and software, net	13,633	13,071
Restricted marketable securities and workers' compensation deposits	2,347	2,041
Deferred income taxes	141	341
Other assets	3,054	1,528
Workers' compensation receivables for insured claims	4,437	4,546
	\$ 155,761	\$ 144,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,811	\$ 1,366
Accrued payroll, payroll taxes and related benefits	32,924	28,650
Other accrued liabilities	1,957	360
Workers' compensation claims liabilities	4,796	5,729
Workers' compensation claims liabilities for insured claims	242	242
Safety incentives liability	7,864	7,687
Current portion of long-term debt		348
Total current liabilities	49,594	44,382
Long-term debt, net of current portion		1,094
Customer deposits	794	663
Long-term workers' compensation claims liabilities	8,179	8,532
Long-term workers' compensation claims liabilities for insured claims	2,757	2,866
Deferred gain on sale and leaseback	854	914
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500 shares authorized; no shares issued and outstanding		

Edgar Filing: BARRETT BUSINESS SERVICES INC - Form 10-Q

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Common stock, \$.01 par value; 20,500 shares authorized, 11,245 and 11,047 shares issued and outstanding	112	110
Additional paid-in capital	40,494	38,382
Other comprehensive loss	(205)	(279)
Retained earnings	53,182	47,637
	<u>93,583</u>	<u>85,850</u>
	<u>\$ 155,761</u>	<u>\$ 144,301</u>

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

Edgar Filing: BARRETT BUSINESS SERVICES INC - Form 10-Q

BARRETT BUSINESS SERVICES, INC.
 Consolidated Statements of Operations
 (Unaudited)
 (In thousands, except per share amounts)

	Three Months Ended June 30,	
	2006	2005
Revenues:		
Staffing services	\$ 30,567	\$ 35,637
Professional employer service fees	34,088	23,994
Total revenues	64,655	59,631
Cost of revenues:		
Direct payroll costs	22,831	26,598
Payroll taxes and benefits	20,437	15,303
Workers' compensation	7,198	6,295
Total cost of revenues	50,466	48,196
Gross margin	14,189	11,435
Selling, general and administrative expenses	7,882	6,251
Depreciation and amortization	329	217
Income from operations	5,978	4,967
Other income (expense):		
Interest expense	(18)	(27)
Investment income, net	705	200
Unrealized loss on marketable securities		(350)
Other	(17)	(28)
Other income (expense)	670	(205)
Income before provision for income taxes	6,648	4,762
Provision for income taxes	2,460	1,857
Net income	\$ 4,188	\$ 2,905
Basic earnings per share	\$.37	\$.33
Weighted average number of basic shares outstanding	11,203	8,717
Diluted earnings per share	\$.36	\$.31
Weighted average number of diluted shares outstanding	11,683	9,398

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

Edgar Filing: BARRETT BUSINESS SERVICES INC - Form 10-Q

BARRETT BUSINESS SERVICES, INC.
 Consolidated Statements of Operations
 (Unaudited)
 (In thousands, except per share amounts)

	Six Months Ended June 30,	
	2006	2005
Revenues:		
Staffing services	\$ 57,228	\$ 64,179
Professional employer service fees	65,712	44,696
Total revenues	122,940	108,875
Cost of revenues:		
Direct payroll costs	42,682	47,615
Payroll taxes and benefits	43,274	31,000
Workers' compensation	13,752	11,701
Total cost of revenues	99,708	90,316
Gross margin	23,232	18,559
Selling, general and administrative expenses	15,102	11,721
Depreciation and amortization	630	453
Income from operations	7,500	6,385
Other income (expense) :		
Interest expense	(40)	(54)
Investment income, net	1,350	347
Unrealized loss on marketable securities		(350)
Other	(8)	(40)
Other income (expense)	1,302	(97)
Income before provision for income taxes	8,802	6,288
Provision for income taxes	3,257	2,452
Net income	\$ 5,545	\$ 3,836
Basic earnings per share	\$.50	\$.44
Weighted average number of basic shares outstanding	11,140	8,681
Diluted earnings per share	\$.48	\$.41
Weighted average number of diluted shares outstanding	11,672	9,375

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

Edgar Filing: BARRETT BUSINESS SERVICES INC - Form 10-Q

BARRETT BUSINESS SERVICES, INC.
 Consolidated Statements of Cash Flows
 (Unaudited)
 (In thousands)

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 5,545	\$ 3,836
Reconciliations of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	630	453
Purchases of marketable securities		(20)
(Gains) losses recognized on marketable securities	(38)	364
Gain recognized on sale and leaseback	(60)	(60)
Deferred income taxes	(107)	(1,242)
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:		
Trade accounts receivable, net	(6,695)	(12,580)
Prepaid expenses and other	(2,024)	(710)
Accounts payable	445	(409)
Accrued payroll, payroll taxes and related benefits	4,274	14,773
Other accrued liabilities	1,597	841
Income taxes payable		1,264
Workers' compensation claims liabilities	(1,286)	2,574
Safety incentives liability	177	1,951
Customer deposits and other assets, net	(1,395)	58
Net cash provided by operating activities	1,063	11,093
Cash flows from investing activities:		
Cash paid for acquisitions, including other direct costs	(3,963)	
Purchase of property and equipment, net of amounts purchased in acquisition	(1,166)	(304)
Proceeds from sales of marketable securities	110	
Purchases of marketable securities		(1,500)
Proceeds from maturities of restricted marketable securities	1,711	1,400
Purchases of restricted marketable securities	(2,017)	(1,758)
Net cash used in investing activities	(5,325)	(2,162)
Cash flows from financing activities:		
Proceeds from credit-line borrowings		700
Payments on credit-line borrowings		(700)
Payments on long-term debt	(1,442)	(273)
Proceeds from the exercise of stock options	511	345
Tax benefit of stock option exercises	1,436	506
Net cash provided by financing activities	505	578
Net (decrease) increase in cash and cash equivalents	(3,757)	9,509