

BARRETT BUSINESS SERVICES INC
Form 10-Q
November 07, 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 September 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 every Interactive Data File required to be submitted 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 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	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 November 1, 2018, 7,381,099 shares of the registrant’s common stock (\$0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC.

INDEX TO FORM 10-Q

Part I - Financial Information

	Page
Item 1. <u>Unaudited Interim Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets - September 30, 2018 and December 31, 2017</u>	3
<u>Condensed Consolidated Statements of Operations - Three and Nine Months Ended September 30, 2018 and 2017</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) - Three and Nine Months Ended September 30, 2018 and 2017</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity - Nine Months Ended September 30, 2018 and 2017</u>	6
<u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2018 and 2017</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	25
<u>Part II - Other Information</u>	
Item 1. <u>Legal Proceedings</u>	26
Item 1A. <u>Risk Factors</u>	26
Item 6. <u>Exhibits</u>	27
<u>Signature</u>	28

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)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,975	\$ 59,835
Trade accounts receivable, net	162,574	136,664
Income taxes receivable	—	1,686
Prepaid expenses and other	12,444	5,724
Investments	395	674
Restricted cash and investments	112,385	103,652
Total current assets	322,773	308,235
Investments	1,649	1,199
Property, equipment and software, net	26,731	24,909
Restricted cash and investments	333,062	291,273
Goodwill	47,820	47,820
Other assets	3,148	3,215
Deferred income taxes	8,158	5,834
	\$ 743,341	\$ 682,485
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 221	\$ 221
Accounts payable	4,464	5,166
Accrued payroll, payroll taxes and related benefits	194,718	181,639
Income taxes payable	2,429	—
Other accrued liabilities	8,860	9,024
Workers' compensation claims liabilities	103,527	97,673
Safety incentives liability	28,600	28,532
Total current liabilities	342,819	322,255
Long-term workers' compensation claims liabilities	295,311	265,844
Long-term debt	4,006	4,171
Customer deposits and other long-term liabilities	1,276	1,381
Total liabilities	643,412	593,651
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,381	74	73

and 7,301 shares issued and outstanding		
Additional paid-in capital	13,674	12,311
Accumulated other comprehensive loss	(7,406)	(1,430)
Retained earnings	93,587	77,880
Total stockholders' equity	99,929	88,834
	\$ 743,341	\$ 682,485

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

Barrett Business Services, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In Thousands, Except Per Share Amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues:				
Professional employer service fees	\$206,320	\$197,388	\$592,559	\$557,315
Staffing services	40,967	42,747	110,307	118,391
Total revenues	247,287	240,135	702,866	675,706
Cost of revenues:				
Direct payroll costs	30,842	31,986	83,265	89,182
Payroll taxes and benefits	100,348	94,922	322,784	304,268
Workers' compensation	56,412	58,310	172,388	172,675
Total cost of revenues	187,602	185,218	578,437	566,125
Gross margin	59,685	54,917	124,429	109,581
Selling, general and administrative expenses	36,670	33,925	101,713	88,595
Depreciation and amortization	949	1,062	3,228	2,989
Income from operations	22,066	19,930	19,488	17,997
Other income (expense):				
Investment income, net	2,235	1,534	6,455	3,084
Interest expense	(465)	(52)	(574)	(197)
Other, net	10	32	15	28
Other income, net	1,780	1,514	5,896	2,915
Income before income taxes	23,846	21,444	25,384	20,912
Provision for income taxes	4,759	6,659	4,178	6,228
Net income	\$19,087	\$14,785	\$21,206	\$14,684
Basic income per common share	\$2.59	\$2.03	\$2.89	\$2.02
Weighted average number of basic common shares				
outstanding	7,369	7,296	7,327	7,266
Diluted income per common share	\$2.50	\$1.96	\$2.77	\$1.95
Weighted average number of diluted common				
shares outstanding	7,643	7,527	7,652	7,539
Cash dividends per common share	\$0.25	\$0.25	\$0.75	\$0.75

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

Barrett Business Services, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In Thousands)

	Three Months Ended September 30,	
	2018	2017
Net income	\$ 19,087	\$ 14,785
Unrealized gains (losses) on investments, net of tax of (\$396) and \$51 in 2018 and 2017,		
respectively	(1,037)	75
Comprehensive income	\$ 18,050	\$ 14,860
	Nine Months Ended September 30,	
	2018	2017
Net income	\$ 21,206	\$ 14,684
Unrealized gains (losses) on investments, net of tax of (\$2,325) and \$128 in 2018 and		
2017, respectively	(5,976)	188
Comprehensive income	\$ 15,230	\$ 14,872

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

Barrett Business Services, Inc.

Condensed Consolidated Statements of Stockholders' Equity

Nine Months Ended September 30, 2018 and 2017

(Unaudited)

(In Thousands)

	Common Shares	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	85	1	147	—	—	148
Common stock repurchased on vesting of						
restricted stock units	(29)	—	(1,666)	—	—	(1,666)
Share-based compensation expense	—	—	3,064	—	—	3,064
Cash dividends on common stock	—	—	—	—	(5,449)	(5,449)
Unrealized gain on investments, net of tax	—	—	—	188	—	188
Net Income	—	—	—	—	14,684	14,684
Balance, September 30, 2017	7,300	\$ 73	\$ 11,183	\$ 185	\$ 69,221	\$ 80,662
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	112	1	323	—	—	324
Common stock repurchased on vesting of						
restricted stock units	(32)	—	(2,952)	—	—	(2,952)
Share-based compensation expense	—	—	3,992	—	—	3,992
Cash dividends on common stock	—	—	—	—	(5,499)	(5,499)
Unrealized gain on investments, net of tax	—	—	—	(5,976)	—	(5,976)
Net income	—	—	—	—	21,206	21,206
Balance, September 30, 2018	7,381	\$ 74	\$ 13,674	\$ (7,406)	\$ 93,587	\$ 99,929

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)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$21,206	\$14,684
Reconciliations of net income to net cash provided by operating activities:		