ABLEST INC
Form 10-K
March 14, 2007

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**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Form 10-K**

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

**For the fiscal year ended December 31, 2006**

**Commission File Number 1-10893**

**Ablest Inc.**

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **65-0978462** |
|---|---|
| *(State of Incorporation)* | *(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)*

**Securities registered pursuant to Section 12(b) of the Exchange Act:**

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Stock, par value $.05 per share | American Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Exchange Act: None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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):

Large accelerated filer o Accelerated Filer o Non-accelerated filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

The aggregate market value of the Registrant s common shares held by non-affiliates as of the last day of the Registrant s most recently completed second fiscal quarter was approximately $4,289,000. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of common shares of the Registrant outstanding at March 12, 2007 was 2,927,424.

**Documents Incorporated by Reference**

Portions of the registrant s definitive Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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## PART I

**ITEM 1.** ***Business***

*References in this document to the Registrant, ( Company ), Ablest , we , our , or us refer to Ablest Inc., except w context otherwise requires.*

**General**

Ablest Inc. ( Company ) offers staffing services in the United States. Staffing services are principally provided through 61 company-owned service locations in the Eastern United States and selected Southwestern markets with the capability to supply staffing services for the clerical, industrial, information technology, and 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. The Company was founded in 1978 and is headquartered in Tampa, Florida. The state of incorporation is the State of Delaware.

**Availability of Reports and Other Information**

Copies of the Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 with the Securities and Exchange Commission ( SEC ) are available, free of charge, on our website, www.ablest.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information contained on the website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

**The Staffing Industry**

The staffing services business is highly competitive with few barriers to entry. There are numerous local, regional and national firms principally engaged in offering such services. The primary competitive factors in the staffing services field are quality of service, reliability of personnel and price. Historically, the temporary staffing industry has experienced its greatest growth during economic recoveries.

The staffing services industry was once used predominately as a short-term solution for greater workforce needs during peak production periods and to replace workers who were abruptly terminated or who were absent due to illness or vacation. For several decades, the use of temporary services has evolved into a permanent and significant component of staffing plans of many employers. Corporate restructuring, government regulations, advances in technology and the desire by many business entities to shift employee costs from a fixed to a variable expense have resulted in the use of a wide range of staffing alternatives by businesses. Flexible staffing alternatives allow businesses to respond quickly and aggressively to changing market conditions which many economists and analysts believe is critical to future economical growth.

Additionally, it is widely accepted by economists that temporary staffing also encourages greater work force participation, which is critical as the United States faces a labor shortage. Temporary staffing provides employment flexibility and options to people who might otherwise choose not to work. Flexible work arrangements offer choices that fit the diverse needs and preferences of potential employees thereby contributing to increased participation and enhanced productivity. The clerical, light industrial, information technology and financial sectors represent the four largest sectors of the temporary staffing industry.

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**Operations**

The table below is a summary of information relating to the Company s operations for each of the last three fiscal years.

| | For the fiscal year ended | | |
|---|---|---|---|
| (Amounts in thousands) | December 31, 2006 | December 25, 2005 | December 26, 2004 |
| Net Serivce Revenues | | | |
| Staffing Services | $140,764 | $ 137,457 | $ 116,353 |
| Operating Income | | | |
| Staffing Services | 2,436 | 3,087 | 1,372 |
| Total Assets | | | |
| Staffing Services | 27,564 | 26,455 | 24,743 |

*Working Capital*. By virtue of the nature of the Company s business, the attainment and maintenance of high levels of working capital is not required.

*Backlog*. In view of the fact that the Company s services are primarily furnished pursuant to purchase orders or on a call basis, backlog is not material.

*Employees.* We employ approximately 200 staff members in our corporate headquarters and company-owned branch offices. In 2006, we assigned more than 35,000 temporary employees with a variety of customers around the United States. At any given time of the year, only a portion of these employees were placed on temporary assignments. The Company considers its employee relations to be good.

*Branch Offices*. All offices are company-owned and provide clerical, light industrial, information technology and financial staffing, primarily concentrated in 12 states. These offices are organized into regions and managed by regional managers and other area staff who provide operation support for the offices in their regions. These offices are organized based upon geographic location and/or service offerings. Each office has a manager who is accountable for the day-to-day operations and profitability. The table below sets forth the geographic distribution of the offices as of December 31, 2006.

| | Branch Offices |
|---|---|
| Midsouth (1) | 9 |
| Midwest (2) | 11 |
| Northeast (3) | 24 |
| Southeast (4) | 17 |
| Total | 61 |

(1) The Midsouth includes the states of Mississippi and Tennessee

(2) The Midwest includes the states of Illinois, Texas and

Arizona

(3) The Northeast includes the states of Maryland, New York, North Carolina, and Virginia

(4) The Southeast includes the states of Florida, Georgia and South Carolina

Managers report to their regional managers and together they are responsible for sales, client development and retention, recruitment, placement and retention of associates and general administration for their respective offices and regions. The Company believes that this decentralization contributes to the initiation and commitment of its management team and that its incentive compensation approach motivates managers to increase profits.

The Company continually reassesses its current operations based on its strategic initiatives and may consolidate or close these offices if they do not meet management s expectations.

**Seasonality**

The Company s quarterly operating results are affected by the number of billing days in the quarter and the seasonality of its clients businesses. Historically, revenue growth has accelerated in each of the fiscal quarters as manufacturers, retailers and service businesses increase their level of business activity. In the first fiscal quarter, gross margins have historically been lower with the affect of state unemployment insurance taxes resetting with the start of the new calendar year. The fourth fiscal quarter has historically been strong as a result of manufacturing and retail emphasis on holiday sales.

**Cyclical Nature of the Business**

The staffing industry has historically been considered to be cyclical, often acting as an indicator of both economic downswings and upswings. Staffing customers tend to use temporary staffing to supplement their existing workforces and generally hire permanent workers when long-term demand is expected to increase. As a consequence of this, our revenues tend to increase quickly when the economy begins to grow. Conversely, revenues also tend to decrease quickly when the economy begins to weaken as the customers reduce temporary workers before terminating their own employees.

**Clients**

The Company serves the needs of small, mid-size and Fortune 500 businesses in a variety of industries. During fiscal years 2006 and 2005, the Company serviced over 2000 clients nationwide. The Company s ten highest volume clients in fiscal years 2006 and 2005 accounted for 30.0% and 27.3%, respectively, of the Company s total revenues. One client, ModusLink Corporation, accounted for 12.1 % of the Company s total revenues for fiscal year 2006. No single client accounted for more than 9.3% of the Company s total revenues for fiscal year 2005.

**Competition**

The temporary services industry is highly competitive with limited barriers to entry. The Company believes that its largest competitors in the clerical and light industrial sectors include Adecco S.A., Kelly Services, Inc., Manpower Inc., Spherion Corporation, Barrett Business Services, Inc., SelectRemedy, Inc. and Westaff Inc.. These and other large competitors have nationwide operations with greater resources than the Company, which among other things could enable them to attempt to maintain or increase their market share by reducing prices. In addition, there are a number of other mid-sized firms that are regional or emphasize specialized niches and compete with the Company in certain markets where they have a stronger presence. Numerous small or single-office firms compete effectively with the Company s offices in their limited areas. In the information technology and financial sectors, the Company believes that its competitors include MPS Group, Inc., Robert Half International, Inc., Adecco S.A., Alternative Resources Corporation, On Assignment, Inc., KForce, Comsys, and CDI Corporation.

Although the Company believes that it competes favorably with respect to the forgoing factors, the Company s management believes that the most important competitive factors in obtaining and retaining its targeted clients is understanding the customer specific job requirements, the ability to provide qualified temporary personnel in a timely manner and the quality of services. The primary competitive factors in obtaining qualified candidates for temporary employment assignments are wages, benefits and responsiveness to work schedules.

The Company expects ongoing vigorous competition and pricing pressure from national, regional and local providers, and there is no assurance that the Company will be able to maintain or increase its market share or profitability.

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**Code of Ethics**

We have adopted a code of ethics applicable to our principal executive officer and senior financial officer, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002, the rules of the SEC promulgated there under and the American Stock Exchange rules. In the event that we make any changes to, or provide any waivers from, the provisions of our code of ethics, we intend to disclose these events on our website or in a report on Form 8-K within four business days of such event.

**Recent Developments**

As previously reported, on January 18, 2007, the Company s Board of Directors received a proposal from certain existing investors, including Charles H. Heist, III, the Company s Chairman of the Board, Kurt R. Moore, the Company s President and Chief Executive Officer, The Burton Partnership (QP), Limited Partnership and The Burton Partnership, Limited Partnership, to acquire all of the Company s publicly held common stock for $7.50 per share in cash.

The Company s Board of Directors formed a Special Committee of four independent directors to review and evaluate the foregoing proposal and any strategic alternatives to the proposal that may be available to the Company. Subsequent to the Company s public announcement of receipt of the foregoing buyout proposal, the Special Committee received an indication of interest from a potential third-party acquirer. The Special Committee has not made a determination whether either proposed transaction is in the best interests of the Company and its stockholders or whether the Company should pursue any other available strategic alternatives. The Special Committee continues to evaluate the foregoing proposals, as well as other strategic alternatives for the Company. Accordingly, no assurances can be given as to whether any particular strategic alternative will be pursued or implemented. The Special Committee currently does not intend to make any further public announcements regarding its review of possible strategic alternatives until its evaluation process has been completed. See also Item 3. Legal Proceedings.

**ITEM 1A.** ***Risk Factors***

In evaluating the Company s business, one should carefully consider the following risk factors in addition to information contained elsewhere in this Annual Report on Form 10-K.

***Any significant economic downturn could result in our clients using fewer temporary employees, which could materially adversely affect the Company.***

Demand for temporary services is significantly affected by the general level of economic activity. As economic activity slows, businesses may reduce their use of temporary employees before undertaking layoffs of their full-time employees, resulting in decreased demand for the Company s temporary personnel. Further, in an economic downturn, the Company may face pricing pressure from its clients and increased competition from other staffing companies, which could have a material adverse effect on the Company s business.

***The Company operates in highly competitive markets with low barriers to entry, potentially limiting its ability to maintain or increase its market share or profit margins.***

The temporary services industry is highly competitive with limited barriers to entry and in recent years has been undergoing significant consolidation. The Company competes in national, regional and local markets with full service agencies and with specialized temporary service agencies. Many competitors are smaller than the Company, but have an advantage over the Company in discrete geographic markets because of their stronger local presence. Other competitors are more well-known and have greater marketing and financial resources than the Company, which among other things could enable them to maintain or increase their market share by reducing prices. The Company expects the level of competition to remain high in the future and competitive pricing pressures may have an adverse effect on the Company s operating margins.

***The Company s success depends upon its ability to attract and retain qualified temporary personnel.***

The Company depends upon its ability to attract qualified temporary personnel who possess the skills and experience necessary to meet the staffing requirements of its clients. It must continually evaluate and upgrade its base of available qualified personnel to keep pace with changing client needs and emerging technologies. Competition for individuals with proven skills is intense and demand for these individuals is expected to remain very strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available to the Company in sufficient numbers and on terms of employment acceptable to management. The success will depend on the Company s ability to recruit qualified temporary personnel and retain them.

***The Company s business may suffer if it loses its key personnel.***

The Company s operations are dependent on the continued efforts of its executive officers and senior management. Additionally, it is dependent on the performance and productivity of its local managers and field personnel. The ability to attract and retain business is significantly affected by local relationships and the quality of service rendered. The loss of those key executive officers and senior management who have acquired experience in operating a staffing service company may cause a significant disruption to the business. Moreover, the loss of key local managers or field personnel may jeopardize existing customer relationships with businesses that continue to use the Company s staffing services based upon past direct relationships with these local managers and field personnel. Either of these types of losses could adversely affect the Company s operations, including its ability to establish and maintain customer relationships.

***The Company may be exposed to employment-related claims and costs that could materially adversely affect its business.***

The Company is in the business of employing people and placing them in the workplace of other businesses. Attendant risks of these activities include possible claims by clients of employee misconduct or negligence, claims by employees of discrimination or harassment (including claims relating to actions of its clients), claims related to the inadvertent employment of illegal aliens or unlicensed personnel, payment of workers compensation claims and other similar claims. The Company has policies and guidelines in place to help reduce its exposure to these risks and has purchased insurance policies against certain risks in amounts that it believes to be adequate. However, there can be no assurances that it will not experience these problems in the future or that it may not incur fines or other losses or negative publicity with respect to these problems that could have a material adverse effect on its business.

***The cost of unemployment insurance premiums and workers compensation costs for temporary employees may rise and reduce the Company s profit margins.***

Businesses use temporary staffing in part to shift certain employment costs and risks to personnel services companies. For example, the Company is responsible for, and pays unemployment insurance premiums and workers compensation for, its temporary employees. These costs have generally risen as a result of increased claims, general economic conditions and governmental regulation. There can be no assurance that the Company will be able to increase the fees charged to its clients in the future to keep pace with increased costs. Price competition in the personnel services industry is intense. If the Company is unable to maintain its margins, it expects that it may choose to stop servicing certain clients. Further, there can be no assurance that certain clients will continue to use the Company at increased cost. There can be no assurance that it will maintain its margins, and if it does not, its results of operations, financial condition and liquidity could be adversely affected.

The Company retains a portion of the risk under its workers compensation program. The estimated remaining deductible liability for all existing and incurred but not reported claims is accrued based upon actuarial methods using current claims information, as well as prior experience, and may be subsequently revised based on new developments related to such claims. Changes in the estimates underlying the claims reserve are

charged or credited to earnings in the period determined, and therefore large fluctuations in any given quarter could materially adversely affect earnings in that period.

***The Company is continually subject to the risk of new regulations, which could harm its business.***

The Company is subject to bills introduced in Congress and various state legislatures, which, if enacted, could impose conditions that could have a negative financial impact on the Company and harm its business operations. The Company takes an active role (through its affiliations with, and participation in, various staffing industry organizations) in opposing proposed legislation adverse to its business and in informing policy makers as to the social and economic benefits of its business. However, there can be no assurance or guarantees that any of these bills (or future bills) will not be enacted, in which case, demand for the Company s services or its financial condition, or both, may suffer.

***The Company faces litigation that could have a material adverse effect on its business, financial condition and results of operations.***

In the ordinary conduct of business, the Company is subject to various lawsuits, investigations and claims, covering a wide range of matters, including, but not limited to, employment matters. It is possible that the Company may be required to pay substantial damages or settlement costs in excess of its insurance coverage, which could have a material adverse effect on its financial condition or results of operations. The Company could also incur substantial legal costs, and management s attention and resources could be diverted from the business.

***The Company s business may be at risk if there is failure of implementing a new information system.***

In 2006, the Company implemented new front-office and back-office systems to be utilized in connection with the commercial and professional staffing operations. This implementation of new management information systems required a significant investment in software, hardware, outside consultant assistance and internal personnel resources. Although it is believed that this technology initiative will increase productivity, improve operating efficiencies and lower long-term operating costs, there is no assurance that such an initiative will yield its intended results.

The Company is dependent on the proper functioning of information systems in operating its business, particularly with respect to monitoring client assignments and billing. If our critical information systems fail or are otherwise unavailable, we would have to accomplish these functions manually, which would temporarily impact our client records and billing capabilities, The Company s information systems are protected through physical and software safeguards including the use of a third party processing center. However, the Company s corporate headquarters and a number of our customers are located in Florida, which is a hurricane-sensitive area. During fiscal 2005, four hurricanes made land-fall in Florida, with Hurricane Wilma moving directly through South Florida and causing significant infrastructure damage and disruption to the area. Our revenues from offices in South Florida were adversely affected by these hurricanes during fiscal 2005. Similar disruptions to our offices and the business of our customers from natural disasters, terrorist acts, power loss, telecommunications failures, physical or software break-ins, computer viruses and similar events any adversely impact our revenues.

***The Company s business may be at risk if there is any negative development with significant customers.***

Of our revenues for the year ended December 31, 2006, approximately 12.1% came from one major customer and 30.0% came from our top ten customers.

***The addition of offices and entry into new geographic markets may not occur on a timely basis or achieve anticipated financial results.***

A key element of our growth strategy includes entering new geographic markets. Our success in entering new

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markets depends on a number of factors including our ability to:

- develop, recruit and maintain qualified personnel in the new geographic market;
- develop and sustain customer relationships in each new market;
- accurately assess the demand for our services in a new geographic market.

The addition of offices and new geographic areas typically result in an increase in our operating expenses, primarily due to increased employee headcount. Because there is typically a delay between a new office opening and reaching full productivity, new office openings may adversely affect our results of operations for a period of time. In addition, we may not accurately forecast the demand for our services in new markets that we enter. If we do not adequately manage for foregoing factors, our operating results and financial condition could be adversely affected.

***Significant increases in payroll-related costs could adversely affect the Company s business.***

We are required to pay a number of federal, state and local payroll and related costs, including unemployment taxes, workers compensation and insurance, FICA, and Medicare, among others, for our employees. Significant increases in the effective rates of any payroll-related costs likely would have a material adverse effect upon our results of operations. Costs could also increase as a result of health care reforms or the possible imposition of additional requirements and restrictions related to the placement of personnel. Recent federal and state legislative proposals have included provisions extending health insurance benefits to personnel who currently do not receive such benefits. We may not be able to increase the fees charged to our clients in a timely manner and in a sufficient amount to cover increased costs, if any such proposals are adopted.

**ITEM 1B.** ***Unresolved Staff Comments***

None.

**ITEM 2.** ***Properties***

The Company currently leases 14,336 square feet of office space in Tampa, Florida that serves as its corporate headquarters. The Company leases 55 additional facilities under rental agreements and under terms and conditions prevailing in the various service locations. The remaining six branches are located at customer sites. The Company considers all of its offices and facilities suitable and adequate for servicing its customers and evaluating proximity to available temporary personnel. The inability to renew all or a majority of the leases on similar or favorable terms to the Company could have a material impact in the financial condition of the Company.

**ITEM 3.** ***Legal Proceedings***

The Company is subject, from time to time, to claims encountered in the normal course of business. In the opinion of management, the resolution of all pending matters will not have a material adverse effect on the Company s financial condition or liquidity. The Company maintains reasonable and prudent insurance coverages and deductibles. The principal risks insured against are workers compensation, personal injury, bodily injury, property damage, professional malpractice, errors and omissions, employment practices and fidelity losses. Management does not expect that the outcome of any pending lawsuits relating to such matters, individually or collectively, will have a material adverse effect on our financial condition, results of operations or cash flows.

The Company understands that on March 5, 2007, David Ryman, an alleged shareholder of the Company, filed a lawsuit against the Company, certain Company directors and officers, and other parties, on behalf of a putative class of the Company s public shareholders. The litigation is pending in the Circuit Court of the 13th Judicial Circuit in and for Hillsborough County, Florida. The Company has not been advised that any defendant has been served with the Complaint. The litigation relates to the Company s January 23, 2007 announcement that: (i) certain existing investors, including Charles H. Heist, III, the Company s Chairman of the Board, Kurt R. Moore, the Company s President and Chief Executive Officer, and two partnerships that

own Company shares, have presented the Company with a proposal to acquire all of the Company s publicly held common stock; and (ii) the Company s Board of Directors has formed a Special Committee of four independent directors to review and evaluate the proposal, as well as other strategic alternatives for the Company . In his Complaint, the plaintiff seeks: (i) an order enjoining the defendants from proceeding with, consummating or closing the proposed transaction; (ii) in the event that the transaction is closed, an order rescinding the transaction or awarding damages; and (iii) an award of attorney s fees, expert s fees and costs. The Company believes that the claims being made in the foregoing litigation are without merit and, if such litigation proceeds, it intends to vigorously defend against such claims.

**ITEM 4.** ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders of the Company during the fourth quarter of fiscal 2006.

## PART II

**ITEM 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Market for Registrant s Common Stock**

The Company s common stock trades on the American Stock Exchange under the symbol AIH .

**Price Range of Common Stock**

The following table presents the quarterly high and low sales prices of our common stock as reported by the American Stock Exchange during each quarter of our fiscal years ended December 31, 2006 and December 25, 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1st Quarter | $9.95 | $8.11 | $ 8.00 | $7.00 |
| 2nd Quarter | 9.65 | 8.33 | 7.70 | 6.63 |
| 3rd Quarter | 8.75 | 5.92 | 12.75 | 6.51 |
| 4th Quarter | 7.15 | 6.17 | 10.85 | 7.50 |

**Number of Common Stockholders**

On February 26, 2007, there were 453 holders of record of our common stock.

**Dividends**

Our current policy is to retain all of our earnings to finance the growth and development of our business. Consequently, we do not anticipate paying cash dividends on our common shares in the foreseeable future.

**Equity Compensation Plan Information**

The following table provides information about the Company s common stock that may be issued upon the exercise of options, warrants, rights and restricted stock under all existing equity compensation plans as of December 31, 2006, including the 2000 Independent Directors Stock Option Plan and 2002 Restricted Stock Plan.

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Equity Compensation Plan Information

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation Plans approved by Security holders | 54,000 | $ 5.38 | 373,800 |
| Total | 54,000 | $ 5.38 | 373,800 |

**Performance Graph**

The following stock performance graph presented on the following page compares the common stock of the company to the Standard and Poors 500 Index (a broad market index) and a peer group index for the five years ended December 31, 2006. The graph assumed an investment of $100 on December 31, 2001 in stock or index, including any dividends were reinvested.

**CPMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among Ablest Inc., The S & P 500 Index
And A Peer Group

* $100 invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.
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www.researchdatagroup.com/S&P.htm

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**ITEM 6. Selected Financial Data**

The selected financial data with respect to the Company set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s consolidated financial statements and notes thereto. The fiscal year of 2006 of the Company is a 53-week period and the fiscal years 2002 through 2005 of the Company are 52-week periods all ending the Sunday closest to December 31.

| Fiscal Year Ended December | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| (Amounts in thousands, except per share data) | | | | | |
| Net service revenues | $140,764 | $137,457 | $116,353 | $104,048 | $101,193 |
| Operating income | 2,436 | 3,087 | 1,372 | 1,061 | 566 |
| Income tax expense (benefit) | 1,148 | 2,542 | 515 | (1,769) | 218 |
| Net income from continuing operations | 1,339 | 536 | 883 | 2,883 | 608 |
| Income per common share from continuing operations: basic | 0.47 | 0.19 | 0.31 | 1.01 | 0.21 |
| diluted | 0.45 | 0.18 | 0.30 | 0.99 | 0.21 |
| Total assets | 27,564 | 26,455 | 24,743 | 22,579 | 19,216 |
| Long-term debt | | | | | |

The following summarizes quarterly operating results:

| 2006 Quarters | 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|
| (Amounts in thousands, except per share data) | | | | |
| Net service revenues | $35,864 | $34,340 | $34,672 | $35,888 |
| Gross profit | 6,111 | 5,942 | 6,181 | 6,204 |
| Operating income | 561 | 505 | 666 | 704 |
| Net income from continuing operations | 348 | 285 | 396 | 310 |
| Income per common share, basic | $ 0.12 | $ 0.10 | $ 0.14 | $ 0.11 |
| Income per common share, diluted | $ 0.12 | $ 0.10 | $ 0.13 | $ 0.10 |

| 2005 Quarters | 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|
| (Amounts in thousands, except per share data) | | | | |
| Net service revenues | $30,835 | $32,751 | $34,873 | $38,998 |
| Gross profit | 4,977 | 5,742 | 5,766 | 6,501 |
| Operating income | 428 | 927 | 589 | 1,143 |
| Net income (loss) from continuing operations | 264 | 574 | 367 | (669) |
| Income (loss) per common share, basic | $ 0.09 | $ 0.20 | $ 0.13 | $ (0.23) |
| Income (loss) per common share, diluted | $ 0.09 | $ 0.20 | $ 0.13 | $ (0.23) |

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**ITEM 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

**Forward-looking Statements**

Statements made in this Annual Report on Form 10-K, 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 , belie 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**,** material 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 Annual Report on Form 10-K are made only as of the date of this Annual Report on Form 10-K, 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 Annual Report on Form 10-K 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.

**History of the Company**

On March 13, 2000, C. H. Heist Corp. sold substantially all of the assets of its United States industrial maintenance business and the stock of C. H. Heist Corp. s wholly owned Canadian subsidiary, C. H. Heist, Ltd., to Onyx Industrial Services, Inc. Taken together, these operations comprised substantially all of the assets of C. H. Heist Corp. s industrial maintenance operations. Included in the sale was C. H. Heist Corp. s administrative and warehousing facility in Buffalo, New York. Also on March 13, 2000, C. H. Heist Corp. merged into a newly formed company, Ablest Inc., and reincorporated in the State of Delaware.

On January 1, 2001, the Company s subsidiaries Ablest Service Corp. (a Delaware corporation), Milestone Technologies, Inc. (an Arizona corporation) and PLP Corp. (an Alabama corporation) were formally merged into Ablest Inc. (a Delaware corporation), to form a single operating company under the Ablest Inc. name. The outstanding shares of the merging corporations were cancelled and no shares of Ablest Inc. were issued in

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exchange. The outstanding shares of Ablest Inc. remain outstanding and were not affected by the merger.
The following discussions and analysis of operations and financial condition pertain to the Company s staffing services business, which constitutes its continuing operations.

**Overview**

We derive our revenues by providing clerical, industrial, technical, and finance and accounting staffing services in the United States. We currently provide our staffing services principally through 61 Company-owned service locations in the Eastern United States and selected Southwestern markets. We fill positions in 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, among others. We do not service any specific industry or field; instead, our services are provided to a broad-based customer list.

During the 53 week period ended December 31, 2006, the Company placed approximately 35,000 workers and provided approximately 11 million hours of staffing services to over 2000 clients.

Substantially all of our revenues are driven by hours billed and billing rates. Our billing rates are generally negotiated and invoiced on a per-hour basis. Accordingly, as we place temporary employees, we record revenue based on their hours worked. Our gross margins are determined by deducting temporary employee pay, related taxes, benefits and other direct placement costs such as drug screens, background and reference checks. 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.

Customer demand for our employment services depends significantly on the overall strength of the labor market. Improving economic growth typically results in increased demand for labor, resulting in greater demand for our services. Correspondingly, during periods of weak economic growth or economic contraction, the demand for our services typically declines**.**

Due to the dependence of the staffing industry growth on economic factors, the inherent difficulty in forecasting the direction and strength of the economy and the short-term nature of staffing assignments, it is difficult to forecast future demand for our services with any certainty. As a result, we monitor a number of economic indicators, as well as recent business trends, in an effort to predict demand for temporary staffing services. Based upon these anticipated trends, we determine whether changes in personnel or other adjustments to our business are appropriate.

Historically, our business has expanded through both internal growth of existing branch offices and opening new branch offices. During 2006 and 2005, we opened new branch office locations and focused on increasing revenues of existing branch offices. During 2007, we intend to open strategically located branches that we believe will enhance our current customer relationships as well as facilitate establishing new ones. We believe that the amount of capital required to open new branches is less than the amount of capital required to consummate acquisitions. We cannot assure you that we will successfully open new branches or that, if opened, such branches will result in any material revenues or contribute positively to our earnings.

We continue to try to improve our gross margins by working closely with our customers to minimize costs associated with workers compensation claims. We have implemented safety training and education programs at all branch locations and key customer locations. We also review the risk profiles of certain clients to assess the potential workers compensation claims liabilities as compared to their potential profitability level. In addition, we expanded our return-to-work program closely monitoring each employee s injury status to enable the employees to return to work as soon as medically advisable. We attempt to manage unemployment insurance costs through aggressive claim adjudication and actively offering displaced employee s alternative

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job assignments. We cannot assure you that our continued efforts to manage workers compensation claims and unemployment insurance costs or our new compensation plan will result in increased operating margins.

In 2005, we entered into a Services Agreement and License & Support Agreement with VCG, Inc. for the installation, maintenance and support of a new front-office system, StaffSuite®, to be utilized in connection with our commercial and professional staffing operations. In addition, we entered into a Professional Services Agreement (including Proposal for Implementation) with IDEAL Consulting, Inc. for the installation of Great Plains® software for use in connection with our back-office systems, including our corporate accounting, finance, human resources and customer service processes. These two systems replaced our existing management information systems to support future growth of the Company. This implementation of a new management information system has required a significant investment in software, hardware, outside consultant assistance and internal personnel resources. Although we believe this technology initiative will increase productivity, improve operating efficiencies and lower long-term operating costs, there is no assurance that such an initiative will yield its intended results.

The following table sets forth for the last five fiscal years, the total number of offices and their associated revenues. Average revenues per office are computed by dividing the relevant revenues by the number of offices. Our long-term revenue growth depends in part upon our ability to continue to attract new clients, retain existing clients, open new offices, as well as our ability to enhance the sales of existing offices beyond historical levels.

| | For the Fiscal Years Ended | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (Dollars in thousands) | | | | |
| Number of offices | 61 | 56 | 49 | 45 | 47 |
| Total hours billed | 10,927,323 | 11,121,141 | 9,683,921 | 8,611,203 | 8,333,481 |
| Average hours billed per office | 179,136 | 198,592 | 197,631 | 191,360 | 177,308 |
| Total revenue | $ 140,827 | $ 137,457 | $ 116,353 | $ 104,048 | $ 101,193 |
| Average revenue per office | $ 2,309 | $ 2,455 | $ 2,375 | $ 2,312 | $ 2,153 |

***For the fiscal year ended December 31, 2006, compared to December 25, 2005***.

Fiscal Year 2006 was comprised of 53 weeks, as opposed to fiscal 2005, which was comprised of 52 weeks.

Results of Operations:

Net service revenues totaled $140.8 million for fiscal 2006 as compared to $137.5 million for fiscal 2005. Net service revenue increased $3.3 million, or 2.4%, the increase is primarily due to the additional week of operations.

Gross profit was $24.4 million for fiscal 2006 and $23.0 million for fiscal 2005. Gross profit increased $1.5 million, or 6.3% over prior year. Gross profit for fiscal year 2006 as a percent of revenue was 17.4% as compared to 16.7% for fiscal year 2005. This improvement is due to management s decision to eliminate higher risk and lower margin business and the increase in clerical, direct hire and temporary-to-permanent business.

Selling, general and administrative expenses increased by $2.1 million or 10.6%, to $22.0 million for fiscal 2006 as compared to fiscal 2005. These expenses were 15.6% in fiscal year 2006 as compared to 14.5% in fiscal year 2005 as a percentage of revenue. Approximately $1.4 million of this increase was attributable to our new branch openings. The remaining variance in these expenses is due to increased workers compensation costs and hiring additional workforce.

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Other income (expense), net, increased to $51,000 in income for fiscal 2006 from $9,000 in expense for fiscal 2005. This increase is materially due to interest income earned as the Company invested excess cash in short-term bonds. As of December 31, 2006, there was no excess cash invested.

***For the fiscal year ended December 25, 2005, compared to December 26, 2004***.

Fiscal Year 2005 was comprised of 52 weeks, as was fiscal 2004.

Results of Operations:

Net service revenues totaled $137.5 million for fiscal 2005 as compared to $116.4 million for fiscal 2004. Net service revenue increased $21.1 million, or 18.1%, due to the expansion of our customer base through the opening of new offices as well as the focus of the existing branches to increase account penetration and improve pricing. The opening of 10 new branches added $9.2 million in revenues.

Gross profit was $23.0 million for fiscal 2005 and $18.4 million for fiscal 2004. Gross profit increased $4.6 million, or 24.8% over prior year. Gross profit for fiscal year 2005 as a percent of revenue was 16.7% as compared to 15.8% for fiscal year 2004. This improvement is due to increased revenue levels, management s decision to eliminate higher risk and lower margin business and the increase in direct hire and temporary-to-permanent business.

Selling, general and administrative expenses increased by $2.9 million or 16.8%, to $19.9 million for fiscal 2005 as compared to fiscal 2004. These expenses were 14.5% in fiscal year 2005 as compared to 14.7% in fiscal year 2004 as a percent of revenue. During the 2005 fiscal year, the Company and its former Chief Financial Officer entered into a Settlement Agreement and Complete and Permanent Release, dated September 22, 2005, pursuant to which, the Company agreed to pay severance of $290,000. In addition, $817,000 of this increase was attributable to our new branch openings. The remaining variance in these expenses is due to increased compensation costs and hiring additional workforce for the higher sales volume. The Company continues to closely manage expense levels to leverage its cost structure as business volume increases.

Other income (expense), net, increased to $9,000 in expense for fiscal 2005 from $26,000 in income for fiscal 2004. This increase is materially due to $7,000 interest expense paid as the Company had borrowings against its revolving credit facility in only the fourth quarter of fiscal 2005. Fiscal year 2004 included a $15,000 state incentive payment to the Company.

Our fiscal 2006 tax expense was $1,148,000 and the effective tax rate for 2006 was 46.2%. The Internal Revenue Service (the IRS ) has completed and closed its examinations of the Company s tax returns for all years through 2003. In connection with these examinations, in January 2006, the IRS issued the Company an assessment related to the previously filed 2001 tax return, which disallowed $3,114,000 of net operating loss ( NOL ) carryfowards. These NOLs represented $1,182,000 of the Company s deferred tax assets, and were derived from the 2000 sale of the industrial maintenance business. Therefore, the effective tax rate for fiscal 2005 was 82.6%, which resulted in tax expense of $2,542,000. This is compared to our fiscal 2004 tax expense of $515,000. The effective tax rate for fiscal 2004 was 36.8%. The Company has notified the IRS of their acceptance of the IRS findings and we have received the final IRS ruling letter. As a result of this ruling, the Company has reduced the deferred tax asset to reflect this settlement and has exhausted the deferred tax asset related to the sale. However, this adjustment did not impact revenues or operating expenses for 2005 and resulted in no cash impact for the 2005 fiscal year. Accordingly, for future periods, the Company anticipates that cash outlays will occur for income tax purposes.

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## Critical Accounting Policies and Estimates:

The discussion and analyses of the Company s financial condition and results of operations were based on the Company s financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company has identified the policies below as critical to the Company s business operations and the understanding of its results of operations. For a detailed discussion on the application of these and other accounting policies, see the notes to the Financial Statements in Item 8 of this Annual Report on Form 10-K. Note that the preparation of this Annual Report on Form 10-K requires management to make estimates and assumptions that affect the reported amount 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 period. On an ongoing basis, the Company s management reviews and evaluates these estimates and assumptions, including those that relate to revenue recognition, accounts receivable, workers compensation costs, goodwill, other long-lived assets, income taxes including the deferred tax assets, contingencies and litigation. 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. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies are those most significantly affected by the judgment, estimates and/or assumptions used in the preparation of the Company s financial statements.

(a) Allowance for Doubtful Accounts

The Company must make estimates of the collectibility of accounts receivable. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in the customers payment tendencies when evaluating the adequacy of the allowance for doubtful accounts.

(b) 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. An annual, independent actuarial study 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. While management believes that the recorded amounts are adequate, there can be no assurance that changes to management s estimates will not occur due to limitations inherent in the estimation process.

(c) Goodwill

In July 2001, the Financial Accounting Standards Board issued 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. At December 31, 2006 and December 25, 2005, the Company did not have indefinite lived intangible assets other than goodwill and did not have any intangible assets with definite lives. Factors included in the impairment analysis include expected revenue and EBITDA growth rates, working capital needs, discount rates and earnings multiples. These assumptions are based on management s best estimate of the current and expected economic environment. As prescribed, the Company screened for impairment of goodwill during the fourth fiscal quarters of 2006 and 2005 and found no instances of impairment of its recorded goodwill.

(d) Deferred Tax Assets

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 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, the Company has determined that the tax asset will be realizable.

For more information, see 2006 Results of Operations.

(e) Revenue Recognition

The Company generates revenue from the sale of temporary staffing and direct-hire services by its operations. Temporary staffing revenues and the related labor costs and payroll taxes are recorded in the period in which the services are performed. Direct hire revenues are recognized when the direct hire candidate begins full-time employment.

Liquidity and Capital Resources:

Historically, we have financed our operations through existing cash balances, operating cash flows and a revolving line of credit. The principal uses of cash are capital expenditures and working capital needs. The nature of the staffing business requires payment of wages to temporary employees and consultants on a weekly basis, while payments from customers are generally received 30-60 days after billing.

The quick ratio was 3.3 to 1 and 3.1 to 1 at December 31, 2006 and December 25, 2005, respectively, and the current ratio was 3.6 to 1 and 3.4 to1 for the same respective periods. The primary source of funding is generated from results of operations. Net working capital increased by $282 thousand during fiscal 2006 as a result of operations. Contributing to this was a decrease in accounts receivable of approximately $1.2 million offset by an increase in cash of approximately $1.1 million during this period due to collection efforts. This was offset by an increase in net accrued expenses of $432,000.

*Cash Flows*

As of December 31, 2006, the Company had total cash resources available of $3.0 million all held in the United States. 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 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. Throughout 2006 and 2005, the Company 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.

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Operating cash flows

Operating cash flows for 2006 of approximately $3.1 million are primarily comprised of earnings, $615 thousand of non-cash expenses for depreciation and amortization, and a non-cash deferred income tax benefit of 195 thousand offset by working capital usage of $916 thousand. Days sales outstanding ( DSO ) for 2006 increased to 47 days from 50 days in the prior year. Each one-day increase in DSO approximates a source of $379,000 of working capital.

Operating cash flows for 2005 of $2.1 million are primarily comprised of earnings, $336,000 of non-cash expenses for depreciation and amortization, stock compensation of $461,000 and a non-cash deferred income tax benefit of $2.4 million offset by working capital usage of $1.8 million. Days sales outstanding ( DSO ) for 2005 increased to 50 days from 53 days in the prior year. Each one-day increase in DSO approximates a source of $377,000 of working capital.

Operating cash flows for 2004 of $113,000 are primarily comprised of earnings, $461,000 of non-cash expenses for depreciation and amortization, stock compensation of $273,000 and a non-cash deferred income tax benefit of $428,000 offset by the working capital usage of $1.9 millions. Working capital for 2004 was used primarily to fund accounts receivable as DSO decreased to 53 days from 48 days in the prior year.

Investing cash flows

Investing cash flows for 2006 of approximately $2.0 million are related to continuing capital expenditures associated with the implementations of both StaffSuite® and Great Plains® as described in the 2005 section immediately below and the move of the corporate headquarters office and its build-out.

Investing cash flows for 2005 of approximately $1.5 million are related to capital expenditures. The reason for the increase is due to the Company entering into a Services Agreement and License & Support Agreement with VCG, Inc. for the installation, maintenance and support of a new front-office system, StaffSuite®, which is utilized in connection with the Company s commercial and professional staffing operations. In addition, the Company entered into a Professional Services Agreement (including Proposal for Implementation) with IDEAL Consulting, Inc. for the installation of Great Plains® software for use in connection with the Company s back-office systems, including its corporate accounting, finance, human resources and customer service processes. These two systems replaced its existing management information systems to support future growth of the Company. This implementation of a new management information system has required a significant investment in software, hardware, outside consultant assistance and internal personnel resources.

Investing cash flows for 2004 of $370,000 are related to capital expenditures.

The Company expects the total 2007 capital expenditures to be between $300,000 and $500,000 and to be funded through operating cash flows or through borrowings under the existing revolving line of credit.

Financing cash flows

The net financing cash outflows for 2006, 2005 and 2004 are zero. In 2005, the Company borrowed against the existing line of credit and repaid the line b